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Politics this week

Aug 7th 2003
From The Economist print edition

More bombs

EPA

A car bomb demolished part of an American-run hotel in **Jakarta**, killing ten people and injuring about 150. Indonesian police said the explosives and methods used in the attack resembled those of last year's bombing of a nightclub in Bali, in which more than 200 people died. Suspicion fell once again on Jemaah Islamiah, a shadowy organisation with alleged links to al-Qaeda. Later in the week, an Indonesian court sentenced a chief suspect, Amrozi bin Nurhasyim, to death for his part in the Bali attack.

See article: A spreading menace

At least nine people were reported to have been killed in an attack on **Jordan's embassy** in Baghdad.

A suicide bomber, presumed to be a **rebel Chechen**, drove a truck into a military hospital in Mozdok, in the Russian republic of North Ossetia, which borders Chechnya, killing at least 50 people.

Israel released about 340 **Palestinian prisoners** in a goodwill gesture. The Palestinians complained that 540 releases had been promised last week, and that many of those freed were near the end of their sentences. Israel countered by pointing out that the prisoner release is not required under the international “road map”, whereas eradicating Palestinian terror groups, not yet done by the Palestinian Authority, is a requirement.

It was reported from the State Department that if Israel persists in driving its “**security wall**” deep into Palestinian territory, America will reduce its loan guarantees by the amount Israel spends on building the wall.

The emir of **Qatar**, who overthrew his own father in 1995, has named his younger son as crown prince, replacing the elder one.

Jordan's newly elected parliament has thrown out a temporary law, introduced by the government and backed by the king, which gave women the right to file for divorce.

The first members of a west African peacekeeping force were cheered when they arrived in Liberia. **Charles Taylor**, the country's embattled president, promised to step down on August 11th, but said he would refuse to leave the country unless war-crimes charges against him were dropped.

See article: Enter the peacekeepers

Zambia's former president, Frederick Chiluba, was charged with the theft of $40m while in office. He said the charges were politically motivated.

A United Nations Security Council resolution supported a proposal that **Western Sahara** become a semi-autonomous region of Morocco for a transition period of up to five years, after which the Saharawis would vote by referendum on independence, autonomy or integration.

See what atoms can do

Hiroshima marked the anniversary on August 6th of the world's first atomic bombing by inviting North

Korea's leader, Kim Jong Il, to the city. North Korea is believed to be making nuclear weapons.

Chung Mong-hun, chairman of Hyundai Asan, a **South Korean** industrial group, committed suicide. He was involved in secretly transferring money to North Korea to improve relations between the two countries.

See article: North Korea makes a disarming gesture

Benazir Bhutto, a former prime minister of Pakistan, and her husband were found guilty by a Swiss court of money laundering and given suspended sentences of six months in jail. Miss Bhutto lives in exile in London. Her husband is in jail in Pakistan.

Azerbaijan's parliament appointed Ilham Aliev prime minister and official heir to his ailing 79-year-old father, President Heidar Aliev, who has run the country (most of the time as part of the Soviet Union) for most of the past 34 years.

See article: The heir to Azerbaijan

Past the first post

In the first big legislative test of Lula da Silva's seven-month presidency, the lower house of **Brazil's** Congress approved his government's pension reform, after some watering down of details. Brazil's currency and its bonds, which had sagged for several days, recovered somewhat.

See article: Reform or bust

Venezuela's president, Hugo Chávez, now looks likely to face a recall referendum this year after the Supreme Court announced that it would appoint a new electoral authority if the country's parliament fails to do so by August 24th.

Two shaky **Andean goverments** enjoyed opposite fortunes. In Ecuador, a powerful Indian party left the government, while in Bolivia, President Gonzalo Sánchez de Losada's coalition was strengthened when a large opposition party agreed to join it.

In Canada, troops joined firefighters and a fleet of 27 aircraft and 115 helicopters battling **forest fires** which ravaged southern British Columbia, forcing the evacuation of 10,000 people.

AP

See article: British Columbia's beleaguered forests

Forest fires also struck the southern half of Europe, destroying at least 200,000 hectares (494,000 acres) of woodland and killing at least 30 people.

See article: Europe's summer fires have been unstoppable

Terminator

After much speculation, Arnold Schwarzenegger finally declared that he would join the race to replace Gray Davis as **California's governor**. So did Cruz Bustamante, the lieutenant-governor, who became the first Democrat to break ranks and oppose Mr Davis. Mr Davis asked California's Supreme Court to delay the ballot until March. His lawsuit contended that electoral machinery would not be ready for October 7th, and that the election was unfair.

See article: Arnold Schwarzenegger and the California race

AFP

Controversy surrounded the election of Gene Robinson as the Episcopalian bishop of New Hampshire. Mr Robinson is now the first openly **gay bishop** in the worldwide Anglican church. America's senior bishops finally approved his selection, but only after last-minute charges of sexual misconduct were

rejected.

See article: Gay guys in frocks shock

After 36 years in the Senate, Ernest Hollings of South Carolina said that he will not seek **re-election** in 2004. His decision opens up a second southern Democratic seat that the Republicans are now expected to gain.

The American army is investigating an outbreak of **pneumonia** in the Persian Gulf region that has killed two soldiers and infected more than 100 others, but said there is no evidence that the cases were caused by exposure to chemical or biological weapons.

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Business this week

Aug 7th 2003
From The Economist print edition

Europe gets tougher

The European Union gave **Microsoft** a “last chance” to defend itself against anti-trust charges. Microsoft may have to disclose how its PC and server operating systems communicate with each other, and offer a stripped-down version of Windows, to help its competitors.

See article: Microsoft's antitrust battles continued

France will rescue **Alstom**, a tottering engineering giant with more than *euro*3.4 billion ($3.9 billion) in equity investments, loans and financial guarantees to customers. The European Commission angrily demanded details of the plan.

See article: France's rescue of Alstom

Britain's **Smith & Nephew** pulled out of a battle to buy **Centerpulse**, Europe's biggest manufacturer of artificial hips and knees. America's **Zimmer Holdings** will now acquire the firm and thus become the world's largest orthopaedics company.

HSBC, the world's second-largest bank, announced a 25% rise in first-half net profits to $4.1 billion, quelling doubts surrounding its purchase of Household International, an American consumer-finance group, earlier this year. But for how long, markets wonder? High profits from dealing activities were largely responsible for the good results.

The Anglo-Dutch consumer giant, **Unilever**, turned the tables on the corporate governance debate by asking ten large shareholders to explain their failure to vote at its last annual meeting. Three claim that they tried to vote but the balloting process failed.

Global **mergers and acquisitions** activity was 10% lower in the first six months of 2003 than in the first half of 2002. Despite this, Asian M&A activity rose by 6% to $106 billion, as more liquidity, steady corporate growth and regulatory changes made takeovers easier, according to J.P. Morgan. Foreign takeovers by Asian firms exceeded the value of foreign takeovers of Asian companies for the first time in five years.

Gold rush

AngloGold, a unit of Anglo American, bid $1.1 billion for Ashanti Goldfields of Ghana. The move would make it a rival to Newmont Mining as one of the world's biggest gold producers. The deal awaits approval from Ghana's government, which holds just under 17% of Ashanti's equity.

The **London Metal Exchange** is investigating price collusion in aluminium trading. Aluminium cash (spot) prices have risen above three-month forward prices, creating a squeeze on firms facing shortfalls in aluminium delivery.

Wireless wars

Qwest boosted its place in the already crowded mobile-telephone market in America by buying capacity from Sprint. The industry worries that the deal will intensify the price wars already under way. Qwest's core business of local and long-distance telephony has been hurt by growing wireless chat.

MCI, the American telecommunications carrier formerly known as WorldCom, refuted claims by its rival AT&T that it was illegally routing long-distance calls through Canada to avoid paying American carriers. MCI, which believes that the accusations are a ploy to derail its emergence from bankruptcy protection, claims its practices are entirely legal and that AT&T itself routes long-distance calls through Mexico to save costs.

Yen for more

Operating profits of **Toyota's** North American unit fell by 37% to ¥64.7 billion ($545m) in the three months to the end of June. A strengthening yen and price wars in the American market together set the world's third-largest carmaker back by ¥70 billion. However, the company has been gaining market share in America. It also became the only Japanese company with a triple-A credit rating after Moody's rating agency upgraded it last week.

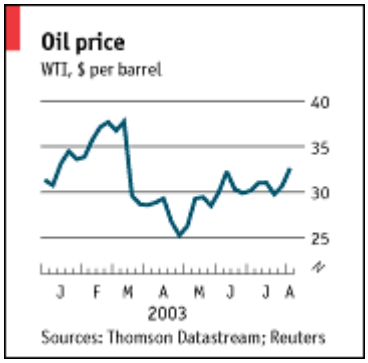
In the biggest privatisation since Slobodan Milosevic fell three years ago, Serbia auctioned off its tobacco industry, raising $681m. **Philip Morris** bought a 66.45% stake in Duvanska Industrija Nis, Serbia's biggest tobacco factory, and **British American Tobacco** a 67.8% stake in Duvanska Industrija Vranje, a smaller factory in southern Serbia.

Coca-Cola and **PepsiCo** denied accusations by India's Centre for Science and Environment that their products manufactured in India contained more than 30 times the level of pesticide residues permitted in the European Union. Last month a report alleged that a Coca-Cola plant in the Indian state of Kerala was emitting toxic sludge.

See article: Indian fizzy drinks

Fair value?

Oil prices climbed to post-Iraq-war highs. American crude prices rose towards $33, driven by OPEC's decision to maintain output restrictions, a bomb attack in Indonesia's capital Jakarta, unrest in Nigeria and the rising cost of reviving the Iraqi oil industry.



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The blue revolution

A new way to feed the world

Aug 7th 2003
From The Economist print edition

Fish farming is a good and promising thing, despite the environmental worries

Get article background

IF MODERN agriculture were invented today, it probably wouldn't be allowed. It pollutes the environment with pesticides, fertilisers and nutrients from feed and animal waste. Farming damages wild habitats and wildlife. And domesticated animals are stocked at high densities and pumped full of growth hormones and antibiotics, with the result that they are often unhealthily fatty compared with their wild relatives. Now, people say the same sort of things about aquaculture. But it would be a calamity if rows about the environmental effects of fish farming prevented the development of a new industry, with the potential to supply most of the world's fish.

All farming alters, and sometimes damages, the environment. Modern aquaculture has arrived at a time when environmental knowledge and concern has rarely been higher, and when it must compete with tourism and home-owners as well as environmentalists for access to the coast. Agriculture had the luxury of being able to pollute and alter the landscape first and worry about the consequences later. Not so aquaculture. Nevertheless, there is no sense in expecting modern aquaculture to emerge immediately as a perfect food supply that pleases everyone from animal lovers and greens to economists and industrialists. The challenge will be to regulate it prudently and efficiently, not just in the rich world but in poor countries and eventually farther out to sea, too.

The devil and the deep blue sea

Certainly, plenty of fish farming makes a nasty mess. Shrimp and salmon aquaculture, which have shown astounding double-digit growth in the past decade, present particularly worrying environmental challenges. But the salmon was first domesticated in the 1970s. Early industrialists made a nasty mess too. However, whereas it took a century to begin to clean up the filth of the Industrial Revolution, improvements in technology are already cleaning up fish farming, at least where the industry is well regulated (see article). For example, the release of waste nitrogen from farming salmon in Norway is now one-sixth of its level 30 years ago; and the amount of feed required is less than half. Indeed, organic farmed salmon is now available to consumers who are worried about marine pollution and antibiotics. Such progress is all the more remarkable given how quickly it has been achieved.

In less developed countries, it is true that much of the industry is poorly regulated. But even here,

environmental concerns about fish farming need to be put in context. For example, in less developed countries, such as Thailand and Vietnam, it is well known that shrimp aquaculture is exceptionally destructive to mangrove forests, which are essential for healthy populations of many wild fish. What is less well advertised is that, whereas 55-60% of mangroves have been lost globally, conversions to shrimp farms probably account for less than 10% of this loss. The rest is down to factors such as rice production, grazing, urban development, fuel, construction materials and tourism—all of which inspire less outrage. And shrimp aquaculture, if undertaken responsibly, is arguably a better use of the land than these other options. It is a compact and efficient way of producing a highly nutritious form of food, and an important way to alleviate poverty.

There are, though, some serious questions to be asked about certain sectors of fish farming. One of the world's most respected fisheries biologists, Daniel Pauly at the University of British Columbia, argues, naturally enough, that there are good and bad forms of aquaculture. The good forms include plant-eating fish such as tilapia—popular in America—and filter-feeding creatures such as scallops, mussels and oysters. Tilapia, he argues, could become the chicken of the sea and produce a net increase in the world's supply of fish. Salmon and sea bass, he argues, are the bad guys, fed on wild fish caught in the ocean. If this kind of farming, widespread in the developed world, becomes popular elsewhere, it may aggravate, not diminish, pressure on the marine environment and on the world's supply of fish. For the moment, however, farming of the good guys represents 80% of global aquaculture.

In cod we trust

In the rich world, the industry urgently needs a certification scheme for farmed fish. Even carnivorous fish can be fed sustainably, by feeding them on fish that has been caught from a renewable (and not a plundered) fishery. Such a certification scheme is already being developed for wild fisheries.

International regulation may also be necessary to address a problem that technology is likely to throw up in the next decade. It will become increasingly possible to farm fish on the high seas, something known as mariculture. At the moment, one of the benefits of aquaculture over oceanic fisheries is that it occurs within the boundaries, and regulation, of governments. If fish farming starts to become a big business in international waters, it could become a big, hard-to-regulate and polluting industry: in other words, a tragedy of the commons. Before that happens, and before large investments are made and governments feel obliged to start defending national interests, mariculture needs common international standards.

Up to now, the world has been dreadful at regulating fishing. The catching of wild fish has long since passed the point at which most fish stocks are sustainable. Catches are declining, and that decline may gather speed. If governments are willing to end the subsidies that keep ocean fisheries afloat, then unsubsidised fish farming could replace at least part of the lost catch. Besides, if governments do not stop subsidising sea fisheries, then the lower costs and greater scope for technological advance in fish farming will make sea fishing less and less competitive, and relentlessly drive up the cost to the public purse of supporting an uneconomic business.

Aquaculture's promise is that, within the next three decades, it could produce most of the world's marine produce. At the same time it could help to alleviate poverty and food shortages in some of the world's poorest countries. And if it is done well, it could help to safeguard marine resources for future generations. That, surely, is something to nurture.

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Britain's cosmopolitan capital

The world comes to London

Aug 7th 2003
From The Economist print edition

Net immigration into Britain is higher than it has ever been. Good

THE huddled masses have a new destination. As a proportion of its population, and in absolute numbers, London now has a higher inflow of foreigners than do either New York or Los Angeles. More are coming, and staying, than ever before. According to many voices in the papers, politics and pressure groups, this must be a time-bomb.

For 20 years, until the early 1990s, net immigration to Britain hovered around the zero mark, plus or minus 50,000. Then numbers started rising. The end of the cold war led to civil conflicts that drove people out of their homelands. Growing prosperity gave more and more people access to air travel. The trains through the Channel Tunnel, which started running in 1993, offered them another route in to Britain.

And there were good reasons to come to Britain. Its economy has done better, over the past ten years, than those of the other big European countries. London was the magnet. Big Bang—the liberalisation of the financial services industry in the late 1980s—led to a decade-long boom in the City. That meant jobs not just for American and French bankers, but also for Colombian and Somali cleaners. London, where the police never check your identity papers, is a great place for a foreigner, legal or illegal. Anybody can find a comforting bunch of people of their own nationality somewhere in the city. Anybody can turn up one evening and find a job, of some sort, the next morning. Anybody can disappear.

Getting in became easier, too. The government has encouraged immigration by issuing more work permits, especially in areas where skills are in short supply—nurses, doctors, IT professionals, for instance. In the mid-1990s, around 30,000 work permits a year were being issued. In 2002, 137,500 were. More people have been given asylum; and, as the system got bogged down, more people have waited longer while their applications were processed. So, by 2001, net migration to Britain as a whole had risen to 172,000, with 120,000 of them bound for London and the south-east. And they're only the legal ones.

Waiter, there's a foreigner in my soup

What has this done for Britain? Changed London dramatically, for a start. When did you last have a British waiter? Whatever happened to the famous British nanny? When did you last go to a City reception and not hear a mix of accents? Can you imagine the blandness of the place without them? At a

macroeconomic level, the foreigners have inevitably boosted growth, in the not-very-interesting sense that more people means a bigger economy; but it has also, probably, made the economy work better. Giving foreigners access to the labour market has the same sort of effect as opening an economy to trade: more competition means greater efficiency.

Even so, many argue that Britain is paying too high a price for a cosmopolitan buzz and a smoother-working labour market. They fear two consequences in particular: population pressures in the south-east of England and ethnic tensions.

An extra 120,000 people a year in a region as densely-populated as the south-east is, the argument goes, too much. It means more congestion, more concrete and less beauty. Locals don't want more housebuilding. The government can impose it on councils only by giving itself powers to override the objections of local councils and decreeing—as John Prescott, the deputy prime minister, did last week—that hundreds of thousands of new homes should be built.

But there's no need for this. Over the past decade, London and the south-east have absorbed a net 680,000 foreigners, without losing much countryside. How has that happened? Partly through development of old industrial areas—such as Docklands—in a place which remains thinly populated compared with the world's other great cities. But it is also partly because, as immigration has fuelled demand and London house prices have risen faster than those in the rest of the country, Londoners have cashed in, sold their houses and moved to cheaper, emptier bits of Britain (see article).

The alternative to concrete

Why, then, is the government so keen on all these new houses? Because public-sector workers are being priced out of the property market. Vacancies in London schools, for instance, are higher than anywhere else in the country. But concreting over the south-east is not the only solution to this problem. The government could always pay public-sector workers in London and the south-east more and those elsewhere less. That solution does not, however, appeal to the Labour Party's paymasters, the trade unions.

But what of ethnic tensions—an unvoiced fear behind much of the unfavourable comment? Is a bit of economic efficiency worth many summers of race riots? Probably not; but, in Britain at least, there's not much connection between race and civil disorder. Certainly, the spotlight fell on Oldham and Bradford, which have big Asian populations, when they went up in flames a couple of years ago. But white Britons are quite capable of organising such entertainments without help from immigrants, as they showed in Blackbird Leys in Oxford in 1991 and Portsmouth in 2000. What's more, London, with its dense ethnic mix, has not seen a good riot for two decades; and the disturbances in Brixton in the early 1980s were a reaction to heavy-handed policing, not a race riot.

That said, immigration is changing Britain, and people find change frightening. Governments need to be careful. That means, for instance, letting immigrants stay where there are lots of other immigrants, and where they are therefore inconspicuous. Some of the loudest recent rows have been over setting up camps for asylum-seekers in bits of the (still very white) countryside. And the government needs to address the question, raised this week by the Conservatives, of screening immigrants for infectious diseases—a reasonable thing to do to those invited in for economic reasons (on work permits) but not those given sanctuary on moral grounds (asylum-seekers).

But the best thing for Britons to do about immigration would be to embrace it. It is nice to be wanted. And, economics aside, foreigners make the place infinitely more fun.

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Endgame in Liberia

A despot's last deal

Aug 7th 2003
From The Economist print edition

America should ensure that Liberia's leader stands trial

AP

Get article background

CHARLES TAYLOR, Liberia's odious president, has promised to stand down on August 11th. In the past, he has usually broken his word, but this time he may keep it, because he is cornered. Rebels bent on toppling him control most of the country, including enough of the capital, Monrovia, to throttle his supply lines. Neighbouring African governments all want him to go. George Bush has said he must. One thing, however, makes him hesitate. He has been indicted for war crimes by an international court in Sierra Leone, and does not want to spend his retirement behind bars.

Nigeria, the regional power whose peacekeepers started to arrive in Liberia this week, has offered him asylum. Hoping to resolve Liberia's awful civil war with minimal further bloodshed, President Olusegun Obasanjo is prepared to let Mr Taylor grow old and portly in Abuja, without fear of extradition. This is not obviously wrong. It may be galling to see Mr Taylor evade justice, but if it prompts him to go quietly, such a deal could save lives, of Liberians and Nigerian peacekeepers alike.

There are problems with this argument, however. One is that Mr Taylor is a slippery fellow. He has promised to resign, but clearly hopes to continue exercising power through a pliant successor. He has said he is willing to leave the country, but not until the charges against him are dropped. They will probably not be, for the chief prosecutor in Sierra Leone is a zealous man. But a safe haven in Nigeria might allow Mr Taylor to dodge them. And it is likely that, wherever he is, so long as he has a mobile telephone and a suitcase of cash, he will continue to foment trouble in his homeland.

Failing to call Mr Taylor to account would have wider implications, too. Africa has suffered, more than any other continent, from a succession of corrupt and vicious leaders. Some have been overthrown and killed (including two in Liberia since 1980). But most have either died in office or retired in comfort. Very few have been put on trial, though Zambia's ex-president Frederick Chiluba, charged this week with stealing $40m while in office, is an encouraging exception. In the short term, granting immunity to outgoing despots may make it easier to get rid of them. But in the long term, it emboldens other despots. It may even give them an incentive to behave worse: the more atrocities they commit, the more desperate people will be to get rid of them, and the more likely they are to strike any bargain that will persuade them to go.

Whether the short-term benefits of cutting a deal with a tyrant outweigh the long-term costs depends on circumstances. If Mr Taylor were in a strong position, a deal might be justified, to avoid the bloody battle

that would otherwise be the only way to remove him. But he is not in a strong position. His soldiers are running out of bullets. His rebel foes could certainly topple him, but are pausing to see if he will flee.

The wild card, meanwhile, is America. Ships carrying 2,300 marines are near or en route for Liberia, but it is not clear what they will do when they arrive. Ordinary Liberians, and neighbouring African governments, want America to lead the peacekeeping operation. The Bush administration has said it will not do so while Mr Taylor remains in Liberia. Such caution is understandable: America has no strategic interest in Liberia. But it has a moral interest in ending a vile war. Africans have a responsibility to solve their own problems but in this case, a small application of American force could make a big difference. America should push Mr Taylor out, and into the dock.

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About sponsorship

California politics

Democracy as chaos

Aug 7th 2003
From The Economist print edition

Even with Arnie running, California's way of recalls is not acceptable

AFP

NO DOUBT about it: Gray Davis has been a lousy governor of California. He oversaw a botched deregulation of electricity prices that put out the lights (and, worse, the air conditioning) all over the Golden State. Having presented himself as a new breed of Democrat, he quickly larded state employees with salaries and benefits California could not afford. He has presided over the accumulation of the largest deficit in state history, $38.2 billion, papered over last week with a farcical budget agreement that relies largely on borrowing. Uncharismatic and politically inept, he has made no impact on California's unruly legislature. In short, he is a disaster.

Nonetheless, only nine months ago, Californians re-elected him. You could argue that, since the local Republican Party has destroyed itself, they had little choice; and Mr Davis was not altogether truthful, either, about the fiscal mess the state was in. But they voted for him, and then changed their minds. At first the effort to recall him got nowhere fast, but then a Republican businessman-turned-congressman, Darrell Issa, pumped his own money into the cause. Enough voter signatures have now been gathered to force a recall election, probably on October 7th, and by this weekend Mr Davis's rivals will have announced their candidacies. A campaign of this sort against a governor of California has never got this far before.

Should it have happened at all? In a representative democracy, regular elections should suffice most of the time. Yet, in principle, it is not unreasonable to let voters eject their rulers between ballots. Gross incompetence or criminality, suddenly discovered, may disqualify a man or woman from office long before the next election day. In Britain, a parliamentary vote of no confidence allows an erring leader to be removed. In California, with its long tradition of direct democracy, it is the people, not the legislature, who do the job in a properly democratic way. And they may well end up with a better candidate governing the state.

Yet the present goings-on in California are disturbing in many ways. To begin with, there is little fairness in it. Mr Davis needs 50% of the vote to survive; any rival can win with a mere plurality. This makes it almost certain that he will be turned out of office. The governor has committed no crime or impropriety; he has simply been incompetent. And even the incompetence has not been all his fault. Mr Davis did not cause California's fiscal woes all by himself; the dotcom bust did most of that. If running big deficits were a recallable offence, few state governors (not to mention presidents) would be left standing. The role of Mr Issa, a disgruntled political rival, smacks more of Russian plutocracy than American democracy. And the immediate effects of the recall effort are the last things California needs: political chaos, fiscal chaos,

and a bill of at least $25m for the election itself.

The worst aspect of the Davis recall is the sense that California has done this on a whim. Relentlessly in search of the titillating and new, it has grown tired of a lacklustre man, and his rivals have smelled blood. But that is not good enough. Recall should always be a weapon of last, not first, resort. To overturn the result of a democratic election is not a light undertaking. It should be difficult to achieve and, above all, it should not look—as California's does—like an act of partisan spite.

Time to get serious

The hurdles should therefore be high. The number of signatures required to force a recall election—12% of the votes cast at the previous normal election, in this case almost 900,000—is probably about right. But the victory margin required for the defending governor is too great: it should either be lowered, or changed to a plurality, to give him a fair chance. The justifications for recall, too, should be spelled out explicitly. Criminal behaviour is a natural reason to throw a man out; ordinary “incompetence” is much too vague. In that case, voters would do better to wait for a normal election to come round.

Hurdles should be higher, too, for those who would enter the race to succeed a disgraced incumbent. In California, a mere 65 signatures and $3,500 allow a candidate to run. The result is a crowd of chancers, including a pornographer and a billboard babe, alongside a few more solid hopes such as Richard Riordan, the former Republican mayor of Los Angeles, and Arnold Schwarzenegger, the Austrian-born actor and would-be Ronald Reagan (see article). Until the law itself is made serious (and it has never been tested to this point before) California's recall elections are not an expression of democracy that anyone else should copy or approve.

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Employment law

Bully for Steven

Aug 7th 2003
From The Economist print edition

How British law looks after people with big salaries and little resilience

PA

FOR a man of delicate sensibilities, Steven Horkulak's chosen career path was curious. He went into money-broking, a high-pressure business where a few seconds can cost hundreds of thousands, and whose operators are not famously a bunch of country choirboys. In early 1997, he joined Cantor Fitzgerald, a firm made tragically famous by the death of 658 of its staff in the World Trade Centre on September 11th 2001 but known within its trade more for the vigour of its methods, and their success. The employees, as well as the firm, reaped the rewards of that success. Mr Horkulak quit in mid-2000; in that year, he could reasonably expect to earn, bonuses included, some £750,000 ($1.2m).

Quit? Not exactly. He was forced out, a London court has decided, by what he calls “a culture of bullying and abuse”; a culture, as the judge put it—“based entirely upon making money both for the company and for yourself.” Perish the thought. His boss's idea of leadership, the court had heard, was “not to accommodate employees, but to dictate to them, to require them to perform”. The rotter. What's more, Lee Amaitis, the boss in question, used language to his employees which may be commonplace in most of modern life, but is still not thought nice in courtrooms and, when repeated in pained tones by plaintiff's counsel, allows newspapers to come over all sanctimonious and replace it with lots of *******.

Poor Mr Horkulak was driven to cocaine and drink; even, with colleagues and clients, to lap-dancing clubs—a sad trial, no doubt, for a married man who wanted nothing so much as to be at home tucking up his wife and three children. He ended up spending a great deal of money talking through his problems at a rehabilitation clinic. Happily, he now has some consolation: subject to appeal, £912,000 of it, plus his legal costs as assessed by the court, maybe £175,000, for the way he was driven from his job. “Enormous bonuses and high pressure are no excuses for bullying,” as his solicitors put it.

Those dreadful people

This story raises several questions. Did a man like Mr Horkulak really need the weight of the law to protect him? Should he perhaps have looked for a job at a slightly lower salary in a firm with a gentler atmosphere? Has employment legislation gone a little far when it protects well-paid, coked-up money-brokers from bosses with sharp tongues as well as Druids and atheists (yes, really) from religious discrimination at work? But to focus on these questions would be to miss the main points of the story. It has brought joy to the nation, by exposing in ghastly detail the awful depravity of City swells. And it is

useful, too, in the morals for modern life it carries: if in doubt, sue, because the chances are there's a law somewhere you can get them under. And if you want to humiliate your employees, do it in subtler ways than by swearing at them.

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Letters

Aug 7th 2003
From The Economist print edition

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Intelligent communication

SIR – The article on intelligence by your six experts makes much of the need for dots and little of the need for communication ("America needs more spies", July 12th). Of course it is always better to have more dots than less. However, when the analyst of the dots communicates with the intelligence adviser to the decision maker, they had better have a good rapport.

The second world war abounded with examples of communications failure and success. Perhaps the best-known example of the latter is the collaboration between the late Sir Harry Hinsley at Bletchley Park and the Operational Intelligence Centre at the Admiralty, which made possible the effective use of Ultra and other sources; it was not spontaneous. I spent over four years in RAF intelligence during the war and I can testify that there is a world of difference between a close colleague and a disembodied voice at the end of a telephone line. Dots alone will not help. When the Chinese embassy in Belgrade was bombed, dots were not in short supply. But the transmission process was a fiasco, which has never really been explained. The brouhaha over Niger's yellowcake has all the earmarks of failed communication, intentional or not.

Ben King
Washington, DC

America and Liberia

SIR – Those who claim that America has a moral obligation to send troops to stop the civil war in Liberia have it exactly wrong: our government has a moral obligation not to place its soldiers at risk except to defend the interests of Americans ("Why Liberia is not Somalia", July 19th). This principle of freedom means that the government may not treat the citizen as a serf; it may not regard him as someone who exists to serve the needs of others. A foreign policy of self-sacrifice denies that principle. To send our soldiers into a battle in which they have no personal interest—to make them risk their lives solely for the sake of warring tribes in Liberia (or Somalia, or Kosovo)—is to negate the underpinnings of liberty.

Peter Schwartz
Irvine, California

Wet markets

SIR – Your water survey's tendency to hype controversial economic instruments such as pricing, markets and privatisation reveals a poor understanding of where the big solution lies to the maldistribution of water resources (July 19th). About 20% of the water used to raise crops is "traded" internationally as "virtual water". Virtual water is, for this argument, the water embedded in staple and other food commodities. Water-deficit economies avoid the stress of mobilising freshwater when they import staple grains. The big exporters, America and the EU, put some of these commodities on the world market at half their production cost.

The world wheat price has been falling for two centuries. Regions of serious water deficit such as the Middle East became so in about 1970, at a favourable moment for them in economic history. Global population will level off at between eight and ten billion. Increases in crop production and productivity, together with virtual-water trade, will mitigate the regional inequities of availability. Ricardo would

recognise the blessings of comparative advantage.

Tony Allan
SOAS/King's College
Water Research Group
London

SIR – You are right that new measures are urgently needed to address water needs. Nevertheless, the answer does not lie solely in well-functioning markets and the proper application of economic tools. Both are a necessary part of the “soft path” solutions we espouse, but are not sufficient.

Relying solely on economic approaches will be as unsuccessful as the focus on large dams and infrastructure during the 20th century. Public-private partnerships will fail without strong government oversight and protection of the public good. Water markets do not protect small farmers, the poorest communities and natural ecosystems. Economists still do not adequately capture ecological and social values when they plan new infrastructure or design water-trading systems. Solving our water problems requires more than the application of economic principles; it requires the integration of social and environmental principles too.

Peter Gleick
Pacific Institute
Oakland, California

Migrating technology

SIR – Your special report on information technology says that Forrester Research predicts more than 3m IT-related jobs will be moved abroad by 2015 (“The new geography of the IT industry”, July 19th). You go on to dismiss this figure as “little more than 2% of total American employment today.” Total IT-related employment in America is estimated at 6m-10m meaning that 30-50% of those jobs could go offshore. While current figures are hard to come by, anecdotal evidence from our research and interviews suggest that a figure of 3m for jobs transferred abroad is not that far away today.

You accurately note some of the problems that offshoring raises, but gloss over the long-term competitive advantage lost to offshore firms when companies outsource their knowledge. It is a cliché to compare the current offshoring effort to the globalisation of the manufacturing sector during the 1970s and 1980s—a more accurate comparison would be the 1950s and 1960s when American car companies in effect handed over their business knowledge to Japanese and European firms.

There has been the promise of a biotechnology-led boom since the mid-1980s but it has yet to happen. Even if it did occur, the likelihood that American and European IT professionals would find employment is remote since biotechnology industries would require a completely different set of skills.

Scott Kirwin
President
IT Professionals Association
of America
Wilmington, Delaware

SIR – Engineers and programmers came to America in droves, during the boom. When the “IT nuclear winter” set in, their visas (and lack of sponsoring employers) left them with no choice but to return to their homelands. It remains to be seen what effect this brain-drain reversal will have. How will the returning expatriates apply the skills they learned in America?

Shireen Caminschi
Santa Rosa, California

Soccer-nomics

SIR – Three times in the past year I have seen the mention of “soccer moms”. As a mother of two sons, both of whom play soccer (or “football” as you Brits like to call it), you have piqued my interest. I had no idea that I drive a “luxury SUV” (“Connecticut's idea of all-out war”, September 7th 2002); “object to abortion being banned”; am a “swing voter” (“We'll make up our own minds”, July 5th); and that I am a

“traditional-minded” supporter of Hillary Clinton (“Big bad Bill or sweet William”, June 28th). Thank you for enlightening me, but I am still unsatisfied. May I suggest a full article about the economics and politics of soccer moms.

Marilyn Underwood
Warner Robbins, Georgia

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Fish farming

The promise of a blue revolution

Aug 7th 2003
From The Economist print edition

How aquaculture might meet most of the world's demand for fish without ruining the environment

Get article background

FISH farming has a bad reputation. Its supporters argue that it promises to meet the growing shortfall as the world's wild fisheries become more and more exhausted. But its critics have the louder voice. They argue that farmed fish is fatty, dyed, polluting and stuffed with antibiotics. Moreover, they say that it is unsustainable. When a carnivorous fish—such as the salmon—is reared on a farm, it too must be fed with fish. And these fish must be caught in the wild, thus putting even more pressure on marine life, not less.

The critics portray fish farming as an alarming environmental and health hazard, not a potential source of food for the world's rich and poor alike. But they glide quickly over the fact that modern aquaculture is at an early stage of development. Commercial agriculture has developed over centuries; large-scale commercial aquaculture is little more than 30 years old. New technologies, new breeds and newly domesticated species of fish offer great hope for the future. They promise a blue revolution in this century to match the green revolution of the last.

On land, human beings may be committed agriculturists, but in the sea they remain largely hunter-gatherers—albeit hunter-gatherers with industrialised fleets equipped with satellite and radar. In 2000, the world landed 95m tonnes of wild fish, with a first-sale value of $81 billion, according to the Food and Agriculture Organisation (FAO). Although this appears to be the highest catch of fish ever recorded, the figure is almost certainly wrong.

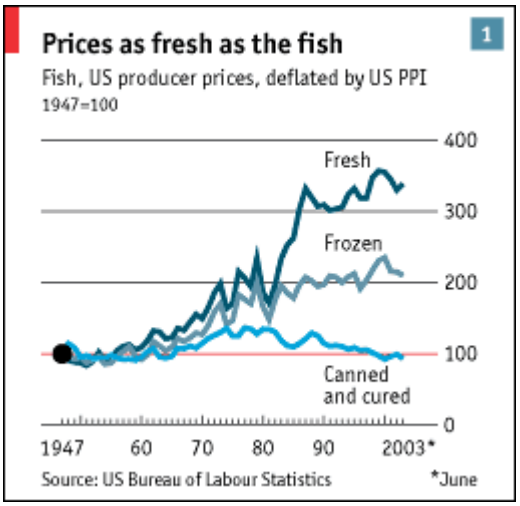
In the past year, it has become clear that statistics from China, the world's largest supplier of fish, have been inaccurate for at least a decade. Many now believe that the global catch has actually been in decline since the mid-1980s. This should come as no surprise: some 75% of global fish stocks are depleted in some way.

As people get richer, they eat more fish. Average consumption per person has almost doubled in under half a century. And fish has certainly become more expensive (see chart 1) as demand has increased and supply declined. There are still not enough farmed fish to stem this price rise. Some products, such as wild salmon and blue-fin tuna, are now luxuries. Nikolas Wada, a researcher with the International Food

Policy Research Institute, says that the rise in seafood prices is even more remarkable when set in the context of prices for other animal products—such as beef, chicken, pork and milk—which have plummeted in real terms over the past 30 years.

The reason that people have been able to continue to eat more fish in spite of the over-exploitation of wild fisheries is because aquaculture production has been booming. In 2000, the industry produced 36m tonnes of fish and shellfish. Since 1990 the industry has been growing at an average compound rate of around 10% a year. It is probably the world's fastest growing form of food production. (By comparison, farmed meat production grew by 2.8%.) Already, around half of the fresh and frozen seafood consumed by Americans is farmed. Some people believe that, by 2030, aquaculture will supply most of the fish people eat.

The problem with some of these global figures is that nobody is sure how inaccurate China's statistics are. The country is without a doubt the world's largest producer of farmed fish and has seen strong growth in recent years (see chart 2). Official figures put its contribution at over 70% of the world's farmed fish and aquatic plants. But if China's production figures are out by only a little, many global predictions are out by a lot. Without China's contribution, aquaculture's growth since 1990 would have been less than 5% per year.



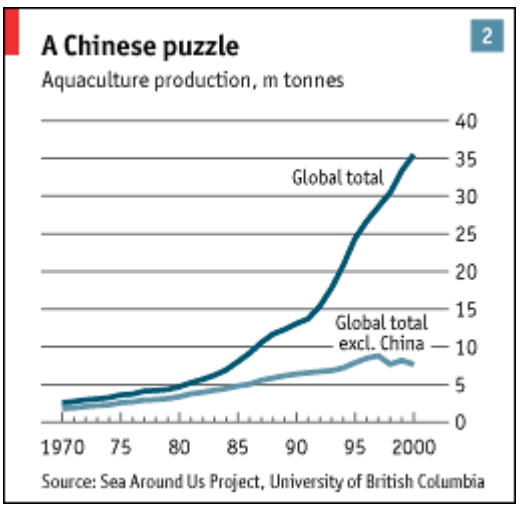
Nevertheless, there is still plenty of cause for optimism. On land, the green revolution allowed dramatic increases in crop production, with increased mechanisation, and improved pest control and soil fertility through the addition of herbicides, pesticides and nitrogen-based fertilisers. In the water, similar kinds of things are happening too. The stage is being set for an aquacultural revolution.

Blue is the colour

Traditional aquaculture, of the kind that the Chinese invented many thousands of years ago, is a low-tech affair involving no more than a pond, some rotting vegetables and a few freshwater fish that are not too fussy about the quality of water they live in or the proximity of their neighbours. There is still plenty of it about. Jiansan Jia, an aquaculture expert at the FAO, says that 80% of the fish produced by aquaculture are herbivorous or omnivorous, mostly produced in low-intensity systems for local consumption. Such fish do a great deal to alleviate nutritional deficiencies and poverty in rural areas, and may yet become a big contributor to local food supplies in most developing countries.

However modern aquaculture, the kind that began with salmon about three decades ago, is a different matter. It involves technically specialised conditions and a great deal of knowledge about the habits and life cycle of each fish species.

It can take years of research to domesticate a new species. Stocking densities, water quality, breeding conditions, animal behaviour, health and precise nutritional requirements have all to be worked out in detail to domesticate wild fish such as the salmon, sea bass, flounder, halibut, sole, hake, haddock and sea bream. And it is scientific and technical knowledge that is driving competitiveness in the industry, by improving fish health and nutrition, and by reducing stress, disease and the use of antibiotics and vaccines.



Mirroring developments in the green revolution, the blue revolution has seen companies breeding fish to improve traits such as their growth rate, conversion of feed into flesh, resistance to disease, tolerance of cold and poor water, and fertility. Breeding tilapia (a freshwater, plant-eating fish popular in America) has produced a strain that is hardier and grows 60% faster than the wild variety.

This is only the beginning. There is already much talk of using genetic modification (GM) in fish farming. Scientists are tinkering with a salmon that carries a gene inducing the production of a growth hormone, which make the fish grow bigger and faster. This project, though, is even more controversial than farming GM crops because of concerns about what might happen if fish escape. No GM fish are being farmed for food at present.

Aquaculture has brought two crucial changes to the seafood industry: consistency of supply and lower prices. Dennis Overton, the managing director of Aquascot, a fish-farming operation in the Scottish Highlands, says that aquaculture has led to an increase in demand for fish. Before salmon were farmed, supermarkets found the unpredictable supply made it difficult to sell. Now salmon can be sold in the same way as beef or lamb, and this, he says, has had a huge impact on sales.

The market is growing fastest in North America—by 12-13% a year in recent years. Salmon is now the third most popular seafood in America. A decade ago, Costco, a big retailer, did not even stock fresh fish. Now it sells 15,000 tonnes of farmed salmon fillets a year. The same story applies to shrimp, now America's most popular seafood.

Scottish Quality Salmon, which represents the salmon-farming industry in Britain, says that in the early 1980s farmers received £11 a kilo ($10 a pound), but increased production and Norwegian dumping drove this down to £3 a kilo in the early 1990s. In 2002, the equivalent price was £1.90. Not all these improvements have been passed on to consumers, however. The retail price of salmon has not changed in Britain in the past decade.

The blue revolution has seen companies breeding fish to improve traits such as their growth rate, conversion of feed into flesh, resistance to disease, tolerance of cold and poor water, and fertility

For the future, says Richard Slaski of the Federation of Scottish Aquaculture Producers, it is halibut and cod that are causing a “huge wave of interest in northern and western Europe”. Cod is (literally) the great white hope of European producers who are facing tough competition from cheap salmon production in Chile. Intensive research efforts are under way in France, Norway and Scotland to farm cod with complete predictability. It is a difficult business. Unlike salmon, cod fry do not have large yolks that they can live off in the early days of their lives. They must be fed, and fed correctly, almost as soon as they have been hatched.

Mr Overton says that Aquascot will breed cod to order from customers, rather than breeding lots of it in the hope of finding a market. But not everyone is thinking this way. “Our colleagues in Norway say they are going to produce thousands of tonnes,” says Mr Slaski, although “they have not addressed the issue of where they are going to sell it.” However, given that catches of wild cod have dropped by two-thirds in the past three decades, there is a clear gap in the market.

Cleaning up

It is pollution not revolution that most folk associate with aquaculture. And indeed, broadly speaking, modern intensive fish farming does harm the environment, although the extent varies enormously. But so does agriculture, and that has not detracted much from beef sales. The issue, of course, is whether society is willing to pay the price.

Waste from fish farms—such as uneaten food and dead fish—can accumulate and destroy parts of the sea. The overuse of antibiotics can threaten both marine and human health. And fish may transmit diseases such as sea lice to wild stock, or breed with wild fish causing “genetic pollution”. In the past decade, 1m non-native Atlantic salmon have escaped from fish farms and established themselves in streams in the north west of America. There are some fjords in Norway where 90% of the fish have escaped from farms.

Shrimp aquaculture also causes serious environmental problems—especially in countries with poor environmental regulations. These problems include the destruction of wetlands and mangroves, the dispersion of chemicals and nutrients, and the salinisation of the soil. A recent study by the Environmental Justice Foundation says that, in the Cau Mau province of Vietnam, the world's fifth-largest producer of farmed shrimp, the Mekong Delta's mangrove cover is 30% of what it was in 1975. Shrimp aquaculture is easily the main cause. Elsewhere, though, aquaculture has probably contributed to the loss of less than 10% of the world's mangroves: the rest is due to causes such as rice production, grazing, urban development and tourism.

The good news is that well-regulated countries have done something about the industry's poor environmental performance. One result has been feed formulations that are more digestible and that leach less waste into the environment. The EWOS group, one of the largest feed suppliers to the salmon-farming industry, is spending more than €10m ($16m) a year on improving nutrition, feed development and fish health. Kjell Bjordal, its chief executive, says that one measure of the release of waste—the nitrogen loading of the water—has declined sharply. In 1972, it was 180kg per 1,000kg of Norwegian salmon produced; today, new feeding technologies have brought it down to 30kg. The amount of feed used for growing salmon is 44% of what it was in 1972.

Mr Slaski says that the use of antibiotics in Norwegian aquaculture is less than 0.5% of what it was ten years ago. Vaccines have brought about great reductions in the use of antibiotics and other chemicals. Even shrimp farming need not be an environmental nightmare, agrees Jason Clay, an aquaculture expert at the World Wildlife Fund in Washington, DC. And in Florida, Ocean Boy Farms claims to be able to produce a marine shrimp that does not pollute the environment. Their inland shrimp farm uses another fish, the tilapia, to mop up the shrimps' waste. A similar technique is being tried by a farm at Mikhmoret, Israel. Such land-based, integrated farming techniques offer great promise but with minimal environmental cost.

Making a meal of it

Aquaculture's critics say that, despite all this effort, the industry has a fatal weakness. The problem was outlined several years ago by scientists who calculated that several kilos of wild caught fish were needed to feed every kilo of farmed salmon or other carnivorous fish such as eel or striped bass. This, it is argued, means that modern aquaculture is increasing, not reducing, the pressure on marine animals. Dan Barlow, of Friends of the Earth in Scotland, says it is even worse for cod. The sand eels that are caught in the North Sea for the farmed cod are supporting the marine food chain there. “You are robbing Peter to pay Paul,” he says, and wild cod will never recover.

Yet despite the growing popularity of farmed carnivorous fish, there has been no corresponding boom in catches of the food they eat. The world's catch of “industrial” fish—mostly anchovies, sardines and menhaden—that is used to make fishmeal has remained resolutely stable at 30m tonnes for decades. The reason for this mystery is that in the past fishmeal was used to feed animals such as poultry and pigs, but this has been cut back. Many argue that using fishmeal to feed fish is, in fact, more efficient than using it to feed terrestrial animals. Today, fish farms use about 40% of the world's supply of fish oil, and 31% of its fishmeal. Many, including the FAO, predict a worldwide shortage of fish oil within the decade.

Aquaculture has brought two crucial changes to the seafood industry: consistency of supply and lower prices

Technology may help to avert it. Mr Bjordal says the fishmeal content of fish feed has been reduced from 70% in 1972 to 35% today. He believes his firm can cut the use of marine resources in half again without reducing the amounts of a key fish oil—omega-3—which is the main reason why fish is seen as a healthy food. Replacement feedstuffs such as soya, rapeseed oil and corn gluten are being developed. Chinese researchers are working on a yeast-based protein supplement that could be a substitute for more than half the fishmeal.

How fast this resource runs out depends a great deal on what China does. It is now the world's largest importer of fishmeal and, if that continues, the FAO dryly observes, it will have “a serious impact on the rate with which the requirements for marine resources may potentially equal supply.”

The most serious concern if fishmeal were to run out, argues Mr Wada, would be the diversion of low-value fish from the mouths of people in developing countries into the mouths of well-fed fish in the developed world. However, if the price of fishmeal rises, a way might be found to harvest unexploited stocks of hard-to-catch industrial species such as krill. This would, though, reduce the amount of food available for large fish and marine animals. Alternatively, more use could be made of what is known as “bycatch”. This is marine collateral damage: the fish that are accidentally caught, killed and then thrown back in the water when other fish are the target. Bycatch amounts to tens of millions of tonnes of fish every year.

Aquaculture has one important advantage over open-access fisheries: it can be more easily governed. Environmental pressure can, and does, force the industry to change. The same cannot be said of the open seas, where nations compete furiously for a dwindling supply of wild fish, and politicians routinely

ignore scientific advice. While fishermen can work only on improving the efficiency with which they capture the few remaining fish, aquaculture can work at lowering its costs of production and increasing its profits. As it does so, it may start to undercut the costs of open-seas fishing to the point where the government subsidies given to ocean fisheries become patently ridiculous. In this way, farming might one day relieve the pressure on wild fisheries.

Certify them

If the past history of agriculture is any guide, aquaculture will surely find a way to meet the world's demand for fish. The big question is: will this be done in a way that pollutes the marine environment unacceptably? As consumers become more aware of the sources and the means of production, they may insist that intensive, modern aquaculture should grow in environmentally sustainable ways.

The problem is that good independent information about the environmental friendliness of farmed fish is sorely lacking. Standards vary widely among countries, and raising standards in one place may drive the industry (and its pollution) somewhere else with weaker rules. An internationally recognised certification scheme, along the lines of dolphin-friendly tuna, is urgently needed to alert consumers to the sustainability (or otherwise) of the farmed fish that they are eating. Only in this way can consumers hope to find out whether the products of modern aquaculture are doing more harm than they prevent. And only then will it be clear how green is the blue revolution.

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Homosexual unions

The meaning of marriage

Aug 7th 2003 | LOS ANGELES AND WASHINGTON, DC
From The Economist print edition

Corbis

An unexpected issue is forcing politicians to take sides

THE Goodridges have been a couple for 16 years. They also have a seven-year-old daughter. Yet, as a lesbian couple, a whole range of social and tax benefits—as well as the legal protection available to most families—are denied to them. So, a year and a half ago, Julie and Hillary Goodridge applied for a marriage licence. When it was denied, they turned to the courts. The decision from the Massachusetts Supreme Court, expected any day, has pushed homosexual marriage into the minds of Americans, on to the front pages of their newspapers and—no doubt—into next year's presidential election.

Other court decisions have already had an even broader impact. On June 26th, the United States Supreme Court struck down a Texas law criminalising gay sex, sealing the fate of similar laws in 12 other states. In the same month, Ontario's highest court decided that homosexuals could get married in that province, a decision that could soon be extended to the rest of Canada. This provided steam for American homosexuals to demand the same rights as their heterosexual compatriots, including those attached to marriage.

Today, no state allows same-sex marriage. The next-best thing is civil union, a legal recognition of homosexual couples which provides some of the benefits of marriage. Vermont was the first to adopt the measure in 2000, providing the same rights as married couples have under state law. California, Hawaii, Connecticut and the District of Columbia have followed, though more timidly. Civil unions, however, are not recognised by other states and bring no federal benefits.

Gay and lesbian groups say they do not want to redefine the religious concept of marriage, merely to end discrimination. Social conservatives cannot agree. Justice Antonin Scalia, dissenting from the Supreme Court decision, argued that it opened the door not only to homosexual marriages but also to the legalisation of bigamy and bestiality. The Vatican is campaigning against it. A proposal, introduced in the House of Representatives in May, to insert a heterosexual definition of marriage into the constitution and to prevent courts from making the states grant benefits and rights to same-sex couples now has 75 co-sponsors from both parties.

A similar proposal will probably be debated in the Senate when it reconvenes in September. Yet there seems little need for it. The Defence of Marriage Act, signed by Bill Clinton (that notable defender of marriage) in 1996, already defines marriage as a union between a man and a woman, and 37 states

have since devised their own versions. The problem will come if the Massachusetts ruling, in effect, defines marriage differently—as it may.

The M-word, therefore, is highly likely to become an issue in next year's election campaign. Gay marriage poses the same problem for both parties: how to keep their political bases happy without alienating moderate voters. Family-values conservatives care more about the sanctity of marriage than any other topic apart from abortion. For them, this is an issue both of religion (marriage being a God-given institition) and of social health. The break-up of the traditional family, they believe, lies at the root of many evils, from poverty to mental illness. They worry, too, that “out-of-control” courts are making policy that should be left to legislatures and voters.

Mr Bush knows that social conservatives will abandon the Republicans, with devastating consequences for the party, if he does not toe their line on the subject. But he also knows that appearing to be bigoted about homosexuals will alienate moderate voters. Most people are pretty tolerant of gays. A Harris poll on July 30th found that 72% of all respondents—and 58% of Republicans—agreed that “it is not illegal for consenting adults to have homosexual sex in their own homes”. And although most polls still show a majority opposed to same-sex marriages, there are signs of growing fragmentation along racial and religious lines. Evangelicals and blacks are heavily against; but women and young people are supportive, and Latinos are warming to the idea.

Evidence of this increased tolerance can be found everywhere. The television networks are full of programmes with kindly views about gays, from “Will and Grace”, which gets, on average, 16.8m viewers a week, to “Queer Eye for the Straight Guy”, a hugely popular programme in which homosexual men try to improve the fashion sense of straight men. The growing trend for gays to come out of the closet is also touching public figures. One of Dick Cheney's daughters is a lesbian; and among the Democratic presidential hopefuls, Dick Gephardt, too, has an openly gay daughter.

The problem for the Democrats is that they may appear to be prisoners of gay-rights pressure groups. These groups are highly visible and vocal parts of the party, particularly in New York, San Francisco and Los Angeles. And they regard gay marriage as part of a more general crusade to win gay rights, casting themselves as the ideological successors of the black civil-rights activists of the 1960s. But most middle-of-the-road voters draw a mental line at the question of marriage: partly for vague religious reasons, partly because it raises the prospect of regularising, and massively extending, gay adoption. People are loth to break with centuries of human tradition; they are also loth to see child-rearing outside heterosexual unions.

The Democratic presidential candidates have so far handled this by favouring civil unions but drawing the line at homosexual marriage (only three no-hopers support the marriage option). Howard Dean is interesting here. He is the left's darling at the moment, and has also signed America's only gay civil-union law. But he has carefully avoided jumping on the gay-marriage bandwagon, arguing that the issue that should be left to the states. (In fact, he signed the civil-union law because he was forced to by a court order, and did so with no public ceremony.)

The battle lines will thus be complicated. The Democrats will champion civil unions and all the legal rights they entail. The Republicans will present themselves as guardians of the institution of marriage, drawing a line in the sand, while making lots of noises about tolerance, as Mr Bush himself has already done.

In the end, homosexual marriage will probably turn out to be a Republican issue, perfect for mobilising the party's deep conservative base. Karl Rove, Mr Bush's Svengali, is always complaining that 4m social conservatives who should have backed Mr Bush in 2000 did not bother to go to the polls. They will bother if this is an issue. On the other side, Democratic equivocation about gay marriage will not motivate the party's left, and the whole issue will antagonise those vital allies, the blacks.

Meanwhile, the fuss may be damaging the drive for gay rights itself. In May, according to a Gallup poll, 60% of Americans thought that homosexual relationships should be legal; by the end of July, only 48% thought so. Support for civil unions has dropped from 49% in May to 40% today. A temporary blip, perhaps; or a sign that Americans, when pushed too fast, are not so ready for equal homosexual rights as most would like to think they are.

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Episcopalians

Into the storm

Aug 7th 2003 | CHICAGO
From The Economist print edition

A gay bishop splits the Anglican communion

Reuters

Robinson's delight

WHEN a country's Episcopalian leaders gather to discuss the proposed appointment of their first openly homosexual bishop, you would not expect things suddenly to get even more rancorous. They did in Minneapolis this week. The Episcopalians had met there to decide whether Gene Robinson, a divorced father of two who for the past 13 years has been in a sexual partnership with another man, should become the bishop of New Hampshire. Things seemed to be going his way—a majority of the rank-and-file clergy and lay delegates voted for him—when, the next day, two allegations of improper sexual conduct were laid against him.

One came from a Vermont man who claimed that Mr Robinson had touched him “inappropriately” a few years ago. The other, from the American Anglican Council, which speaks for the church's more conservative members, said that a website for a group of homosexual and bisexual teenagers, supposedly linked to Mr Robinson, had pornographic connections.

As it turned out, the two charges got nowhere. An inquiry was swiftly made. Within 24 hours Mr Robinson's name was cleared, the bishops gave their decisive vote, and he got his appointment.

This does not mean that the argument is over. The church, which has about 2.3m members within the United States, is the American branch of the Anglican communion, which has some 77m members worldwide. A few weeks ago the Anglican church in Britain had a similar explosion when a priest who is a non-practising homosexual was proposed for a bishopric (he turned down the offer in the face of the objections).

Opposition to Mr Robinson's appointment remains vehement. “May God have mercy on this church,” said Bishop Robert Duncan of Pittsburgh. He urged the Archbishop of Canterbury and bishops of the Anglican communion to “intervene in the pastoral emergency”. Anglican leaders in Africa, Asia and Latin America have joined in the protest. The American conservatives said before this week's final vote that, if Mr Robinson did get the job, they would call a meeting in October to decide what to do about it. When women were allowed to become Episcopal priests, some parishes broke away from the church.

Minneapolis, where this week's meeting was held, is one of America's more liberal dioceses. Joel Gibson, a former Episcopal priest who runs an inter-faith centre in the city, sees the appointment of a

homosexual bishop as the latest step in a process that has brought blacks and women into the Episcopal clergy over the years. Each of those steps was painful, he says; but “now this subject has come out of the closet.”

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Employment

A strange recovery

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From The Economist print edition

Jobs continue to disappear

AMERICA'S economy is now supposedly on the road to recovery, but somebody forgot to tell the labour market. Non-farm payrolls fell by another 44,000 in July. Since the recession began in early 2001, 3.2m jobs have disappeared in the private sector. If the early-1990s' upturn was the jobless recovery, this, says Merrill Lynch, is “the job-loss recovery”.

In the first 20 months of previous post-war recoveries, employment rose by an average of almost 6%. The latest recession officially ended in November 2001, but in the 20 months since then employment has fallen by almost 1% (see chart). It is true that unemployment fell slightly in July, to 6.2% of the labour force. But the jobless figures are currently misleading, because the labour force has shrunk as discouraged workers have stopped looking for work.

America's GDP growth seems to have picked up (see article), so why are firms still not hiring? One reason is that this has been America's slowest recovery in modern history. Real GDP has increased at an annual pace of only 2.6% since the recession ended, compared with an average growth rate of 4.7% over the first two years of previous post-1945 recoveries.

In addition, faster productivity growth means that fewer new jobs are created for any given increase in output. Productivity growth soared in the second quarter of this year. By hiring more temporary and part-time workers, firms have increased their flexibility and hence productivity; they are reluctant to hire new permanent staff until they are confident about the recovery.

Faster productivity growth is good for the economy in the long run. But in the short term, if it leads to further job losses, consumer confidence and spending may be depressed, leading to slower growth and yet more job cuts. This being the case, it is wrong to shrug off the weak labour market as merely a “lagging indicator”.

Unemployment has risen across the board, but men have suffered more than women, mainly because the biggest job cuts have been in manufacturing. Women now have a lower jobless rate than men. Young people have suffered the biggest rise in unemployment over the past few years. The jobless rate for those under 20 has increased from 12.6% in 2000 to 18.4% in July, and the average jobless rate has risen from 3.8% to 6.2%.

According to Challenger, Gray and Christmas, a job-finding firm, planned lay-offs announced by American companies surged by 43% in July. This suggests that the jobs market is likely to remain weak for a while. Jobs are getting harder to find; the average duration of unemployment has increased to almost 20 weeks, already higher than at its recent peak in 1994, and only a touch below its all-time record of 21 weeks in 1983. Some are getting desperate. Stories abound of applicants packing their résumés in pizza boxes, or even sending naked photographs of themselves to potential employers. Fine, if you want a job in a nudist pizza parlour.

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Minnesota politics

If Wellstone were running...

Aug 7th 2003 | MINNEAPOLIS
From The Economist print edition

Preserving the senator's common touch

AP

The candidate to emulate

HE HAS been dead for almost a year, but Paul Wellstone still exerts a powerful hold on Minnesota politics. Many liberals have pointedly neglected to take the green-and-white Wellstone stickers off their cars. Some still keep Wellstone signs on their lawns. A recent open house at Wellstone's former campaign headquarters drew about 1,000 people. And a few Republicans, exasperated by Wellstone's staying power, are slapping on their own bumper-stickers. “He's dead, get over it,” reads one.

Liberals—or progressives, as some prefer to call themselves—plan to do no such thing. Instead, a group of the late senator's closest friends and supporters is hoping to transform his legacy into the cornerstone of a newly revived progressive movement. One example of this effort is a political boot camp called “Camp Wellstone”, a two-and-a-half-day training course for aspiring activists, campaign managers and candidates.

The camp was launched this summer in Minnesota. In the autumn, the organisers plan to take their concept to the battleground states of Ohio, Pennsylvania and Michigan. By the end of next year, they hope to have held about 30 camps and trained more than 3,000 people in how to attract voters and build a base of support—for Democratic candidates, naturally, though again the organisers think “progressive” has a nicer ring to it.

Camp sessions teach would-be candidates not just to canvass their communities, but to get to know them intimately. They learn to find the “opinion leaders”, the community “gatekeepers” and the central gathering places (meaning diners and bars). They are encouraged to think of communities not just as neighbourhoods but also as demographic targets and interest groups—the elderly, minorities, gays and lesbians. Having done all that, they then have to devise a stump speech that will thrill these targets to the bone.

Behind the camps lies the serious realisation that, judging by the elections of 2000 and 2002, the Republicans have mastered the grassroots organising techniques that used to be the Democrats' preserve. In 2001, the Republican Party developed sophisticated databases that included the profiles of likely Republican voters. These became the basis for a national get-out-the-vote campaign, which probably helped the party to win several close elections in 2002.

And yet, in the weeks and months before the 2002 election, all the Republicans' money and data had

failed to dent Wellstone's narrow lead over his opponent, Norm Coleman. The senator was cleverly using his money not for last-minute TV ads but for training activists to get likely Democratic voters to the polling stations. When he died, just 11 days before the election, his workers were poised to launch a decisive get-out-the-vote campaign.

Camp Wellstone is an attempt by those progressives to ram home these techniques. What they cannot reduce to a formula, though, are Wellstone's energy and conviction, which won him both sides' respect. In the national Democratic field, both John Kerry and Howard Dean are striving explicitly—at least when in Minnesota—to cast themselves in the Wellstone mould, with Mr Kerry promising to campaign on the Wellstonian issue of economic equality. It is a promise that may play less well in states without the memory of that irrepressible people's politician.

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Alabama

What would Jesus do?

Aug 7th 2003 | MONTGOMERY
From The Economist print edition

Political epiphany and ancient grudges in the Deep South

IN THE rotunda of Alabama's state courthouse stands a block of granite engraved with the Ten Commandments. If the federal courts prevail over the determined believers who vow to defend it, this symbol of the tangled relationship between church and state in Alabama could soon be removed. Tangled, and evolving: Alabama's surprising governor has ignited another, bigger fracas about the Bible's proper role in government. The row combines three of the Deep South's deepest concerns: tax, race and religion.

As a congressman, Bob Riley was an implacable foe of taxes. Then, after his whisker-thin election to the governorship last year, he took a look at Alabama's finances, and—having squeezed spending as hard as he could—found himself still $675m short of what was needed to maintain the state's current level of public services. Alabama has always been poor, often badly governed and habitually in the red, but this is its biggest shortfall since the Depression, 70 years ago. Mr Riley also took a look at the quality of those services, and the way Alabama's tax burden is distributed, and experienced a conversion.

Improbably, in May he proposed a tax increase that will, in time, amount to $1.2 billion a year, colossal by Alabama's standards. Without higher taxes, he says, criminals and the elderly could soon be turned out of prisons and care homes, teachers fired and highways left unpoliced. Worst of all, in a state that channels much of its frustrated ambition into cheering for its college football teams, school athletics programmes may be imperilled. As well as plugging a deficit, the governor's package would bring in extra money for education and make schools more accountable.

The expressly religious part is what Mr Riley, a Southern Baptist who, like Mr Bush in the White House, hosts Bible classes in the state Capitol, wants to do for the poor. An Alabamian family of four currently starts paying income tax when it earns $4,600, the lowest threshold in America. Under Mr Riley's plan, that figure will rise to around $20,000. The well-to-do and the landed will pick up much of the slack. Property taxes (currently the nation's lowest), high-end income tax and some sales taxes would rise. The plan was passed by the legislature in June, but Alabama's constitution gives its voters the final say on September 9th.

Despite their partisan queasiness, most leading Democrats have lined up behind Mr Riley. So have many businesses, arguing that Alabama needs a more skilled workforce to build on its nascent high-tech and car industries. But many in his own Republican Party feel betrayed. Marty Connors, its state chairman, says diplomatically that his real worry is how the Democrats in the legislature (“a bunch of pigs in the trough”) will spend the new cash. The governor's prophecies of doom are, he says, “marketing”. “They are scaring the bejesus out of people,” says Bob Gambacurta of the anti-Riley Tax Accountability Coalition (TAC). As can happen in southern campaigns—paradoxically, in a region that prizes its manners—hairy insults have been flying. Mr Riley has been called unRepublican, a union stooge and, worst of all, a socialist.

And in a city with churches on every corner and often in between, the religious rhetoric has been flying too. A TAC rally in suburban Montgomery begins with thanks to God for making the assembled company Alabamians, and ends with the distribution of propaganda packs for delivery to Sunday-school classes. Citing the parable of the talents, John Giles, of the Christian Coalition of Alabama, argues that good stewardship can remedy the deficit and that churches, not the state, should take care of the poor (though he admits that, in Alabama, they haven't done a very good job). Many of Alabama's Christian denominations support tax reform, though not as vigorously as they opposed the sinful state lottery proposed by the previous governor.

The idea that better stewardship (that is, cuts) is the answer is disputed by Ethel Barnes, principal of a Montgomery elementary school. Ms Barnes's inadequate funding has left her relying on prison labour for decorating and the local air force base for computers. A more persuasive argument is that the poor will end up being walloped by the new sales taxes. In response, the governor's team says that two-thirds of Alabamians will pay the same or less (state) income tax if the plan flies, rising to 85% if the federal tax cut is taken into account. Alabama's state and local tax take, now the lowest per person in the country, will still be near the bottom.

Love thine enemy

Despite these compelling numbers, the governor must overcome two of his state's most engrained characteristics if his scheme is to fare better than previous, abortive, efforts at tax reform. The first is what Sid McAnnally, a suave official at Alabama Partnership for Progress, an umbrella group that supports the plan, calls Alabama's “cellular-level aversion to disproportionate taxation”. Wayne Flint, a historian at Auburn University, says this distaste can be traced back to Reconstruction days. After the 1861-65 Civil War, property was taxed heavily to pay for new services that largely benefited blacks and poor whites. The reaction to these Reconstruction economics was low property taxes, an obstructive constitution and a tax structure leaning heavily on sales taxes and thus on the poor.

This instinct, and the plan's intimidating complexity, have left its supporters well behind in the polls. Their task is exacerbated by the second of Alabama's historic traits: its deep racial divisions. The tax debate, say political observers, is interpreted racially by many Alabamians: property tax is regarded as a white man's burden, and extra state spending is seen as subsidising blacks, who make up around a quarter of the state's population and more of its poor. Mr Riley has tried to mobilise black voters by invoking the memory of the great civil-rights struggles of Selma and Montgomery, which, along with the city's role as a cradle of the Confederacy, are commemorated along Montgomery's main drag.

But memories of previous Republican governors make black Alabamians disinclined to trust him. And this means that Mr Riley's scheme is currently least popular among precisely the people who stand to gain most from it. In the final irony of this topsy-turvy story, this white Republican southern governor needs to convert poor black voters to realise his vision of a more just society.

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Lexington

Running Man

Aug 7th 2003
From The Economist print edition

At a blow, Arnold Schwarzenegger has transformed the California political scene

Get article background

FOR weeks, Arnold Schwarzenegger has been playing an elaborate game of “Will he, won't he?” One moment he was set to terminate the governor of California. The next, he was hiding in the bosom of his family. On Wednesday evening he electrified American politics by announcing his candidacy.

Mr Schwarzenegger entered the race with movie-star aplomb. He larded his speech with sly references to his films (“I'll be back,” he said as he left). A few hours later he appeared on Jay Leno, a late-night comedy show, to chew over his plans for the great state of California.

Is this a joke? Has California, a legendary gathering-ground of America's kooks and crazies, finally gone off the deep end? The most populous state in the country and the world's fifth-biggest economy is in a desperate mess, with a gigantic deficit, a crumbling infrastructure and a weak economy. This is surely no time to be calling on a man most famous for his uncanny ability to play a robot.

People on the east coast were quick to poke fun. Mr Schwarzenegger is only one of a motley crowd of would-be governors, including Larry Flynt, the publisher of *Hustler*, and Arianna Huffington, a former Gingrich follower who has reinvented herself as a left-wing populist. One jibe did the rounds immediately: a gubernatorial debate between the Austrian-born Schwarzenegger and the Greek-born Mrs Huffington would be the first in American history that would have to come with sub-titles.

The recall, California-style, is a flawed and unfair device. And there is no doubt that Mr Schwarzenegger's entry into the race has intensified the carnival atmosphere surrounding the proceedings. He himself has not helped matters by saying that his decision to run for governor was the most difficult he has made since plumping for a bikini wax. But the big surprise about the Terminator's candidacy is that it is deadly serious.

Mr Schwarzenegger, a long-standing Republican, has a better chance than anybody else in his party of unseating the Democratic governor, Gray Davis. His entry into the race not only turns him, at once, into the front-runner. It hugely increases the chances of saying “*Hasta la vista*, baby”, to Mr Davis. The actor boasts not only star power and name recognition (no small thing in a star-obsessed state). He is also a

liberal Republican: enthusiastically pro-business but tolerant on social questions such as abortion and gay rights. The Republican Party has consigned itself to oblivion in California in the past decade because as well as alientating Latinos, it has insisted on nominating social conservatives such as Dan Lungren (who lost to Mr Davis by 20 percentage points in 1998) and Bill Simon (who lost by five points last year). Many people believed that Richard Riordan, the former mayor of Los Angeles and another liberal Republican, had a good chance of beating Mr Davis; now California has a liberal Republican with film-star looks and a phenomenal media buzz.

But what about experience? Mr Davis has plenty of that. He has spent his life in state politics, starting as Jerry Brown's bagman. He is tight with all the state's vested interests, is a formidable campaigner, and has some of the best political consultants in the business. In 1998 he came from behind to beat three much richer candidates. In 2002 he raised $70m.

Yet Mr Schwarzenegger is not quite the neophyte he might seem. He has already sounded all the right notes. He is running against vested interests and politics as usual. He wants to free businesses from high taxes and burdensome regulations. The people of California are doing their job, he says, but the politicians are “fiddling, fumbling and failing”.

Mr Schwarzenegger is a familiar face in Republican circles. But he is also married to a Kennedy, Maria Shriver, strengthening his appeal to Democrats and independents. Above all, he is a close friend of Mr Riordan; so close, in fact, that the two have often seemed like a double-act during the past few weeks of feverish speculation. He stands to inherit the political machinery that Mr Riordan created in his eight years as mayor of Los Angeles.

Reprising Ronald Reagan

He also has two other advantages. One is George Bush's secret weapon: low expectations. People will be surprised to learn that, despite his muscle-bound image, Mr Schwarzenegger is a shrewd and well-informed man. The other is a whirlwind of hatred of Mr Davis. A negative campaign by him may well backfire. Indeed, the state's Democratic attorney-general, Bill Lockyer, has already warned him not to engage in the sort of “trashy puke” campaigning that characterised the 2002 race.

Mr Schwarzenegger's liberal views on abortion (and his legion of friends in Hollywood) will shield him from the accusation that he is a tool of the vast right-wing conspiracy. Californians are weary of Mr Davis's smear tactics. They are also acutely aware that it is professional politicians who have got California in the mess it is in. Worse still, Mr Davis has a problem on his left flank: Mrs Huffington has a good chance of picking off disillusioned liberals.

The Terminator also has a compelling story to tell: one that cannot help melting the hearts of people obsessed with celebrity and upward mobility. He is an Austrian immigrant who came to America with little command of English. Yet he lived the American dream, earning an MBA, marrying a Kennedy, making millions in films and, despite a dodgy past as a body-builder, becoming a pillar of Los Angeles society.

When Ronald Reagan ran for the governorship of California in 1966 (sounding many of the same populist notes that the Terminator is now sounding) the state's political establishment treated him as a joke. The star of “Bedtime for Bonzo” running for the most important governorship in the country! Mr Reagan trashed his opponent, Pat Brown, by a million votes.

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Development and the environment

Gas for Peru v green imperialism

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Where should the balance between development and the environment be struck? And who should strike it?

Get article background

EVEN if natural gas from the Amazon jungle reaches Peru's capital, Lima, next August as planned, it will have taken almost two decades to get there. Royal Dutch/Shell started exploring the huge Camisea gas field in the mid-1980s, but finally walked away from it in 1998 after years of wrangling with Peru's governments over the contract for the country's biggest energy project. Other firms have stepped in. But now American environmentalists are making a final attempt to halt the $1.5 billion project, which if it goes ahead should turn Peru from an importer of fuel into an exporter. The outcome of this battle will be a test of the political viability of big development projects in South America.

Camisea has proven reserves of 9 trillion cubic feet of natural gas and 500m barrels of condensates—more than enough to supply Lima for decades. In 2000, Peru's government awarded a licence to develop the field to an “upstream” consortium headed by Pluspetrol of Argentina and Hunt Oil, an American firm. A second “downstream” consortium is building a 700 km (440 mile) pipeline to the coast. Around two-thirds of this work has already been completed. There will also be a plant on the Pacific coast to process condensates for export, and, perhaps, a liquefaction plant to export gas to Mexico and energy-hungry California.

But the lobbying, led by Amazon Watch, a Californian organisation, caused the Inter-American Development Bank (IDB) last week to put off until August 27th a decision on a $75m loan for the pipeline. Approval by the IDB might unlock another loan, of $200m, for the “upstream” consortium, from the United States' Export-Import Bank and other funding.

Inconveniently, Camisea itself is deep in one of the more pristine parts of the Peruvian jungle. Its opponents claim that the project threatens isolated tribes of Amazon Indians, rare species and the rainforest along the pipeline route, and that the export terminals would endanger a marine reserve at Paracas. Certainly, some Indians died from disease after first coming in contact with workers in the mid-1980s. But Camisea's defenders argue that its benefits are huge, and that any social and environmental costs can be minimised.

Peru, once an oil exporter, now imports some $500m of fuel a year (net of exports). Camisea will provide cleaner, cheaper, energy for local consumers, as well as exports. The IDB estimates that the project would add 0.8% a year to Peru's GDP over its 30-year life. Jaime Quijandría, the economy minister, says that it should generate tax revenues of up to $200m a year, much of which will go to the dirt-poor areas through which the pipeline passes.

Mr Quijandría, who was energy minister until a reshuffle last month, admits that having to devote so much attention to the environmental and social aspects of an energy project was “a new experience for us”. Scrutiny by greens has forced the government and the developers to take some desirable precautions. The consortium is using “offshore” technology at Camisea: drilling sites are being operated as if they were islands in the jungle. Workers and supplies are helicoptered in. There are no access roads. Jungle will soon cover over the scars left by construction work.

The IDB insists that its involvement has already led to improvements in the project design. Over the past year, it has carried out detailed environmental and social-impact studies. It has also given Peru a $5m “institution-building” loan to help it police the Camisea project, and proposes to finance parallel monitoring by local groups. Peru's government has also been doing its best to show that it is aware of the risks. Partly at the urging of the IDB and others, it has strengthened legal protection for the Indian reserves near Camisea and set up a special ombudsman to monitor the whole project. The energy regulator recently fined the pipeline consortium for a breach of environmental regulations.

None of this mollifies the more radical American greens, such as Amazon Watch. They claim massive soil erosion is taking place along the pipeline route (something which can and should be remedied). They also oppose the planned location of the export terminals. These are close to the Paracas marine reserve (not within it, as they imply), but in an area already disfigured by fishmeal plants and a smelter.

In a sign that the lobbying has more to do with American domestic politics than with the interests of Peruvians, Amazon Watch has told journalists that the Camisea loans would “enrich some of Mr Bush's closest corporate campaign contributors”. Britain's *Independent* newspaper plastered this allegation across its front page last week. The chairman of Hunt Oil is indeed a friend of Mr Bush. But though Halliburton, named as another “beneficiary”, has done a feasibility study for the liquefaction plant, it has no involvement in Camisea itself.

Without the loans, Camisea may still go ahead. But the project would take longer and might finish up having less money to spend on protecting the environment. Some of the concerns about Camisea's environmental and social risks are no doubt legitimate. Bodies such as the IDB can help. But many Peruvians think it should be for Peru to decide whether and how to exploit its natural resources.

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Argentina and the IMF

The talking begins

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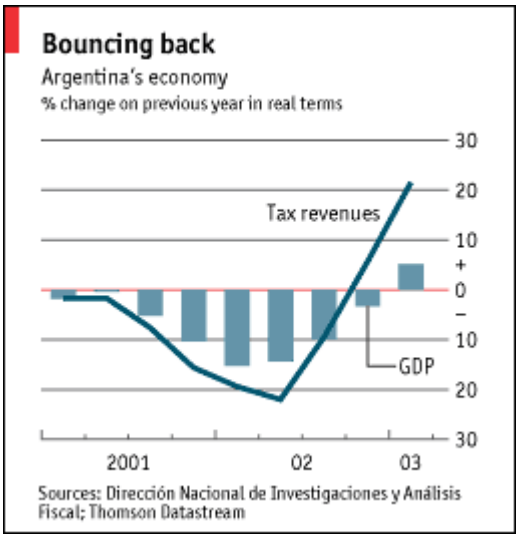
The obstacles to a crucial agreement

SINCE becoming Argentina's president in May, Néstor Kirchner has quickly stamped his authority on his country's politics. He has purged the army and the police, and wants to shake up the judiciary. All of this has made him popular, in a country still scarred by a debt default and wrenching economic collapse in 2001. Now comes the hard part. Last week, a team from the International Monetary Fund turned up in Buenos Aires to start talks on an agreement that holds the key to Argentina's prospects over the rest of Mr Kirchner's four-year term.

Relations between the IMF and Argentina have been poisonous. In January, the Fund's board disregarded the opposition of its senior staff and signed a temporary accord rolling over Argentina's debts for seven months. Since then, the atmosphere has become far more cordial. Argentina more than met most of the macroeconomic targets in the January agreement. The economy is set to grow by 5% this year (see chart). Unemployment has fallen, though it still stands at 15.6%. But there are signs that growth is faltering. Sustaining it requires credit and investment—and for these, an IMF agreement is crucial.



Two sets of issues will dominate the new talks. The first is Argentina's mountain of public debt and the size of the budget surplus the government needs if it is to service it.

In 2001, in the largest default in financial history, Argentina stopped honouring debts which now total $77 billion (including subsequent unpaid interest). Reaching an agreement with creditors was always going to be tortuous, but Argentina has been slow to try. Officials had said they would unveil an offer to creditors at the IMF annual meeting in Dubai next month. But that now looks unlikely. And the creditors are unimpressed by the government's efforts so far.

AP

The Fund's Argentine fan club limbers up for the kick-off

To make matters worse, the previous government issued $28 billion in new bonds to compensate banks for a bungled devaluation in 2002. Servicing these will cost 1.7% of GDP next year and 3.5% in 2005, according to Luis Secco, an economic consultant. Even if the IMF agrees to roll over Argentina's debts to the Fund for another three years, little may be left over to offer holders of the defaulted bonds.

In his inaugural speech, Mr Kirchner promised that his government would not make debt repayments “at the price of the hunger and exclusion of Argentines”. Roberto Lavagna, the economy minister, argues that Argentina cannot afford a primary fiscal surplus (before debt payments) of more than 3% of GDP, without compromising economic growth. But IMF officials counter that restoring Argentina's creditworthiness is itself essential if growth is to continue. They have hinted that Argentina should match Brazil, which has stabilised its debts by churning out a primary surplus of 4.5% of GDP.

This argument might be settled by splitting the difference. Not so a second one, over structural reforms. The IMF wants reforms that would allow the closure of some banks, and new regulations that would allow privatised utility companies to raise tariffs, frozen since last year's devaluation. Such reforms were in the January agreement with the IMF, but not implemented. With a congressional election due in October, the government has no appetite for unpopular measures. Guillermo Nielsen, the finance secretary, has anyway dismissed the need for such reforms: he told an Argentina newspaper that they were “ideological myths”.

Fund officials will want to try and pin Argentina down on these reforms this time. Mr Kirchner clearly hopes to trump them with appeals to their political masters. Last month, he visited the leaders of Britain, France, Spain and the United States to press his case. This week, Mr Lavagna was due to meet John Snow, his American counterpart.

The world has some sympathy for Argentina. Even the IMF now accepts that it has made mistakes in its handling of the country's problems, as Horst Köhler, the Fund's boss, recently admitted. But Argentina risks overplaying its hand. France and Spain, which pushed for the January agreement, are now worried about the problems of their utility companies, whose subsidiaries in Argentina have lost money. Argentina is due to make a $2.9 billion payment to the IMF by September 9th. Unless an agreement is imminent by then, the government says it will not pay. In January, the IMF gave in to a similar threat. Will it do so again?

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Reform in Brazil

Pension plan

Aug 7th 2003 | SÃO PAULO
From The Economist print edition

The president passes a key test

Get article background

LULA is in trouble, or at least that is what Brazil's media say of the country's left-wing president. The economy is stagnant. Civil servants have been striking against the government's pension reform, and the radical landless movement has staged a wave of land invasions. Even the financial markets, which until now have applauded the government's adherence to economic orthodoxy, have turned jittery. Since mid-July, the risk premium on Brazilian bonds jumped 1.5 percentage points and the *real* slumped, from around 2.90 to the dollar to a low of 3.07, though it later appreciated somewhat.

All this added up to the first big political challenge for Luiz Inácio Lula da Silva. He has begun to meet it. On August 6th, he secured the approval in the lower house of Congress of the crucial reform of public-sector pensions. He had cancelled a planned trip to Africa to line up the votes personally. The decision paid off: in a midnight vote, the bill passed by 358 votes to 126—well over the three-fifths majority required, since the reform amends the constitution. Hurdles remain: opponents will single out the most controversial items for individual votes over the next few days; the reform faces a second vote in the lower house before moving on to the Senate. The hardest part, though, is probably over.

The deficit in public-sector pensions is heading for a staggering 4.1% of GDP this year. The benefits go to a small but privileged group, retired civil servants; the costs cripple the government's efforts to alleviate poverty and invest in economic growth. The reform will not end the problem. CSFB, an investment bank, guesses that it will save 0.35-0.5% of GDP in the first year, and little more in subsequent years.

Even so, its passage sends important signals. It shows that Lula can govern. Most of the parties in his fractious governing coalition backed reform, as did part of the opposition. But his own left-wing Workers' Party had long opposed it. He whipped it into line: 79 of the party's 91 deputies voted for the bill, after last-minute threats to expel members who rebelled against the government.

Mr da Silva also stood up to public-sector unions, once his staunchest supporters and now his loudest critics. The government made last-minute concessions: these included raising a salary cap for state judges and prosecutors and lifting slightly the threshold at which current retirees will have to pay contributions to the pension system. That does little fiscal damage, though further dilution may follow. Although the savings from the bill are modest, they are seen by investors as proof of the government's intention to stabilise Brazil's debt over the long term.

The strikes and land protests do not reflect widespread dissatisfaction with Lula, argues Christopher Garman, an analyst at Tendências, a consultancy. His government is more popular than his predecessor's was at this stage of his mandate, even though the economy is in far worse shape.

That does not mean the president is safe. If the economy does not pick up, his popularity could evaporate—and with it his commitment to economic orthodoxy. Several of his ministries, especially those responsible for alleviating poverty and inequality, have been ineffectual.

Doubts are emerging, too, over the government's willingness to defend property rights. Telecoms and electricity companies see populism creeping into regulatory decisions. Some Brazilians believe that the government is being too lenient towards the landless, joined now by urban squatters. It has not only refrained from open confrontation, which may be sensible, but appears to offer encouragement. Financial folk are starting to say that investment will suffer unless the government defends the rule of law more vigorously. This could be Lula's “Achilles heel”, says one. Maybe, but at least the president is on the

move.

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Canada's forests

Fire and pestilence

Aug 7th 2003 | VANCOUVER
From The Economist print edition

A double whammy in British Columbia

Get article background

THIS is a summer of biblical harshness for the forests of British Columbia. A vast and still-growing expanse of woodland has turned into a rust-red wasteland of dead trees, ravaged by pine beetles. And over the past fortnight, raging wildfires have charred large tracts of south-central British Columbia, forcing 10,000 people to flee near Kamloops, gutting some 80 homes and a sawmill.

In this double blow, the heavier has been dealt by the pine beetle. In North America's worst-ever forest infestation, the beetles have attacked 9m hectares (22m acres) of lodgepole pine in a huge apostrophe-shaped area, 1,100 km (685 miles) long and 450 km wide, around Prince George. The timber affected is enough to build 3.3m homes, or to supply the entire American housing market for two years. In the next few weeks, billions of tiny beetles will emerge from the dead trunks and fly off in search of new trees to kill. Since the infestation took off five years ago, the damage has doubled annually, and is likely to do so again this year, according to Allan Carroll of the Canadian Forest Service.

Such outbreaks are not unusual. Why is this one so severe? Ironically, forest fires normally keep insects at bay. More effective fire control has led to an increase in the numbers of the mature trees the beetles prefer. In the past, cold winters, in which the temperature plunged below minus 40°C (-40°F), killed off up to 80% of the beetle larvae. But British Columbia has not seen such winters for many years.

Unfortunately, this summer's fires, triggered by lightning and perhaps careless smokers after a hot, dry summer, are unlikely to help. They are in the wrong place (see map). The worry now is that the beetles have reached Alberta, threatening the boreal forests there.

Some forest scientists blame the provincial government for letting the beetles get out of control. Its forest ministry first detected a small colony in a provincial park in 1994, but failed to eliminate them. Now, forest-friendly methods such as beetle trapping, selective logging and controlled fires have little effect. All the foresters can do is pray for very cold winters—and allow logging of infested tracts to slow the plague's advance.

This clearcutting worries greens, but is a lifeline for logging firms. They are struggling under hefty anti-

dumping duties imposed by the United States in 2001 in a protracted trade dispute. “Salvation logging” of dead trees carries a discounted stumpage (cutting) fee. That has helped British Columbia's timber firms to maintain their American sales despite the punitive duties. The pesky beetles have a silver lining of sorts.

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Japanese politics

Can Kan shake Japan?

Aug 7th 2003 | TOKYO
From The Economist print edition

The two biggest opposition parties are merging in readiness for a possible snap election this autumn. Do they have a chance?

Get article background

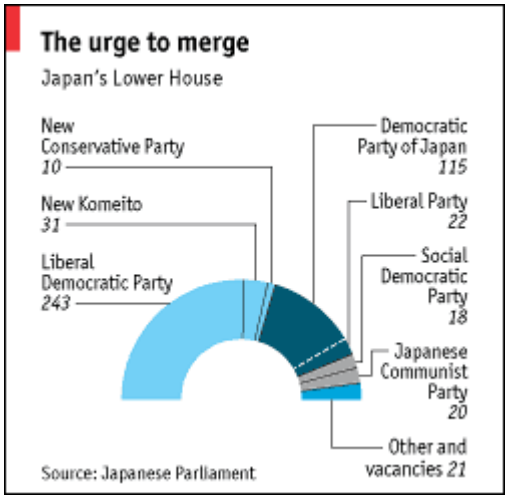
THE politicians of Japan's ruling Liberal Democratic Party (LDP), most of them defenders of the status quo, are a frustrating lot. Yet the country's opposition parties can be no less maddening. The ruling party is old and dull. It has delivered ten straight years of economic stagnation. But the opposition has been remarkably inept at challenging its rule. Now that parliamentary elections seem possible in November, Naoto Kan, the leader of the biggest opposition party, the Democratic Party of Japan (DPJ), is at last swinging into action. Armed with a recently announced merger with Ichiro Ozawa's Liberal Party, and plans for a new campaign manifesto, the 56-year-old Mr Kan says that he is ready to fight for power.

The merger—in effect, it will be more like an acquisition—will happen in September. Mr Kan's Democrats will absorb Japan's second-biggest opposition party and its 22 lower-house MPs. The Democrats will keep their name and take control of the merged party. The new party will still hold only 137 of 480 lower-house seats, but Mr Kan believes that the union will make it more competitive in the next general election because it will be easier for voters in many constituencies to unite behind a single opposition candidate. He also says he is pursuing an electoral pact with Japan's Social Democratic Party, another opposition outfit, at least in some places.

Mr Kan's cause may seem hopeless. His Democrats consistently get less than 10% support in opinion surveys (and the Liberals only another 2%), compared with over 30% support for the LDP. But Mr Kan points out that half of Japanese voters are not loyal to any political party, and that opposition parties have won a large share of those floating votes in recent elections.

In 1998, for example, shortly after the DPJ was created through a merger of other parties, it stunned the LDP in upper-house elections despite having only 6% support in opinion polls a month before the vote. The prime minister at the time, Ryutaro Hashimoto, who had to scramble to maintain a majority coalition,

resigned. Similarly, before the most recent lower-house elections, in June 2000, the Democrats were getting less than 10% support in newspaper polls. Yet it and the other three opposition parties astonished Japan by winning 20 more seats than the ruling coalition in the contest for 180 proportional-representation seats. It was only in the 300 first-past-the-post constituencies (where rural voters, who typically support the LDP, are grossly over-represented) that the ruling coalition cleaned up, not least because in many races the divided opposition fielded rival candidates.



The Democrats still face problems, though. In 2000, the LDP prime minister was the unpopular Yoshiro Mori. By contrast, Japan's present prime minister, Junichiro Koizumi, has a 45% popularity rating, even after a recent slide. So even with better arithmetic in the constituencies, the Democrats will have to run a much better campaign to succeed this time around.

Mr Kan thinks that a detailed campaign manifesto will help. The idea is to lay out specific policies with numerical targets, timetables and concrete plans for achieving them, so that voters can gauge whether parties' promises make sense. Such plans, a commonplace in western election campaigns, are a novelty in Japan, where vague commitments are the rule. Mr Koizumi took office promising to hold public borrowing to ¥30 trillion ($240 billion) a year, for example, but with no blueprint for doing so. It was not long before he broke the pledge.

The strangely radical idea of using manifestos first came from the country's local politicians. A handful of maverick governors have won elections in the past few years after laying out clear plans to reduce classroom sizes, change police deployments and meet other local concerns. These commitments, and the voters' support for their plans, have given such governors leverage in their battles with the central bureaucracy. The manifesto idea has thus gained popularity among many Japanese. More attention to specifics might also make for crisper debate and clearer choices in national elections.

Mr Kan has seized upon the idea, and the party is now mulling several dozen ideas—from overhauling the tax code, to pensions reform to deregulation initiatives—that it wants to include in its manifesto. The difficulty will be that the Democrats are hardly a coherent group. Mr Ozawa and his fellow Liberals have promised to go along with whatever manifesto the pre-merger Democrats decide upon. But even without the Liberals the party is divided on economics between socialists, social democrats, economic liberals and opportunists who fled the LDP and other parties in the 1990s. On security policy, some Democrats want to change the constitution to allow a broader interpretation of self-defence and make it easier to deploy peacekeeping troops. Others just as staunchly oppose any change.

Still, in spite of these divisions, Mr Kan's manifesto idea has the potential to cause more problems for the LDP than for his own party. Whereas Democrats on the whole support many of Mr Koizumi's reform ideas, but fault him for not delivering, much of the prime minister's own party wants him to call off the reforms altogether. Though he is thought likely to prevail, he may face a tough fight to win the LDP's presidential election on September 20th. It is assumed that he will then call for general elections in November. But he has upset his party's anti-reformers by saying that if he wins another term as leader the party should adopt his reform plans as its manifesto. To keep his job in September, he may have to compromise on this.

Until recently, one of the Democrats' handicaps has been that they share much the same desire for reform and deregulation as Mr Koizumi, but have less experience than his party. What might happen if the prime minister and the opposition run on similar manifestos, but most of the ruling-party candidates oppose both? Optimists might hope that this combination will at last break the jam in Japanese politics. In theory, Mr Koizumi could shatter the LDP from within while the Democrats take seats from its anti-reformers. But it has been a long time since the optimists were right about Japan.

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Indonesia

Striking at the heart

Aug 7th 2003 | JAKARTA
From The Economist print edition

AFP

Another bomb targets foreigners

WITH one deadly explosion on August 5th, Jakarta's new JW Marriott Hotel was transformed from a symbol of Indonesia's recovery from years of turmoil into a reminder of its vulnerability to terrorism. No one has claimed responsibility and no one has been formally blamed for the apparent suicide bomb which killed ten people, injured 150 and was powerful enough to be heard a couple of miles away. But even the once-heedless president, Megawati Sukarnoputri, having been chastened by the bombing that killed 202 people in Bali last October, is now admitting that Indonesia faces a serious challenge from Muslim extremists.

Less than a week before the bombing, Miss Megawati gave warning of the “horrible threat” terrorists posed to the country in her annual speech to Indonesia's highest legislative body, the People's Consultative Assembly. Though she did not name it, her references to “blind fanaticism” and “disrespect for the lives of other people” were assumed to be a reference to Jemaah Islamiah (JI), the shady organisation blamed for the atrocity in Bali.

The JI is already in the frame for the latest attack. The *Straits Times*, a Singaporean newspaper, has said that a man claiming to be a JI operative telephoned its Jakarta bureau to claim responsibility on behalf of the group. The police do not give this report much credence, but say the bomb was made of the same ingredients as that used in Bali. They also claim to have discovered a map of the area around the Marriott, along with bomb-making materials, during a raid on a suspected JI cell in the central Javanese city of Semarang last month. Furthermore, as in Bali, the bomb was hidden in a van, targeted a location frequented by westerners, and was designed to inflict many casualties and huge economic damage. As before, the perpetrators had tried (but failed) to erase the vehicle's engine and chassis numbers. These numbers eventually led police to the suspects now on trial for the Bali blast.

The first verdict in those trials, and the death sentence, was delivered as expected on August 7th, a fact that may account for the timing of the bomb, if indeed it was the work of JI. Amrozi bin Nurhasyim, the defendant, is not the alleged leader of the Bali plot, but his grinning defiance has become emblematic of JI's perceived lack of remorse and determination to keep killing. Three other suspects in the Bali bombing are on trial, as is JI's alleged spiritual leader, Abu Bakar Basyir, who has been implicated in several terrorist attacks, but not, so far, the one in Bali. Thirty more are awaiting trial over the Bali bombing.

At least this time around the government is less sensitive about fighting terrorism and has more

experience. Australian police joined the investigation into the Marriott attack within hours—a step that seemed politically fraught in the aftermath of Bali but passed without murmur this time. Officers from neighbouring Asian countries are also helping. Police quickly identified the van that carried the bomb. By the day after the blast, they had released a sketch of a suspect.

The same day, the government announced that there was no need to panic or adopt any new policies to prevent further attacks. All it needs to do, officials say, is extend and intensify existing security measures. These fall into three main categories: extra security at potential targets, greater involvement of ordinary Indonesians in the fight against terror, and improved detective work.

But all that is very vague, and JI's brand of terrorism, with its soft civilian targets, is very difficult to fight. Senior ministers admit their intelligence-gathering capabilities are poor. The chances of another bombing in Indonesia are high: JI has the inclination, the capability and the resources to mount one. Two of the alleged makers of the Bali bomb, Dulmatin and Azahari Husin, are still at large, while a third JI explosives expert, Fathur Rohman al-Ghozi, escaped from a supposedly high-security prison in the Philippines last month and has not been recaptured. Police have been hunting for the man they consider the lynchpin of JI, known as Hambali, for several years now.

The Semarang raid, in which four suspects were arrested, proves that the police are capable of hunting down JI cells. But if the cell was involved in the latest bombing, as the map discovered by police implies, then it continued to operate despite police disruption. Furthermore, the government admits it has no idea how many more cells or bomb-making arsenals exist. Cells have recently been discovered in surprising places such as, allegedly, in Cambodia and in Thailand, as well as dotted around Indonesia. After the Marriott bombing, Indonesian ministers said that terrorism was an international problem requiring international solutions. But for now, Indonesia is bearing the brunt.

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Taiwan

Ripple effect

Aug 7th 2003 | TAIPEI
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Hong Kong's turmoil touches Taiwan

Get article background

AS THEY try to grapple with Hong Kong's recent upsurge of pro-democracy activism, China's leaders must also be unsettled by developments in Taiwan. The island's generally lacklustre president, Chen Shui-bian (a man hated by China), is trying to exploit public antipathy towards China's recent behaviour, including its policies in Hong Kong, to boost his chances of re-election next March. Although he faces a tough fight with an unusually unified opposition, Mr Chen could just win.

The Hong Kong government has said it will start another round of public consultations in September on the controversial security bill that precipitated the recent crisis. Having won strong backing from China's leaders during a visit to Beijing last month, it appears likely that Hong Kong's unpopular leader, Tung Chee-hwa, will oversee the process. He will be helped by a new secretary for security, Ambrose Lee, named this week along with a new financial secretary, Henry Tang.

But the appointments will do little to appease Hong Kong's pro-democracy camp. Though large-scale protests have been suspended for now, they will recur once debate on the security bill resumes. Unrest in Hong Kong will help Mr Chen, enabling him to focus his campaign on the shortcomings of China's “one country, two systems” strategy, rather than on his own erratic performance as president.

In April, Mr Chen's chances of winning a second term dimmed when the two main opposition leaders announced they would run on a joint ticket in the presidential polls. In the 2000 election, Mr Chen won by a whisker thanks to their rivalry, becoming the first person from the pro-independence Democratic Progressive Party (DPP) ever to hold the post.

Ironically, China may now have boosted his chances. First came the outbreak in China early this year of the respiratory disease SARS. Many in Taiwan blamed its spread to the island on China's failure to acknowledge and tackle the epidemic more promptly. This hurt the opposition parties, which are regarded as more sympathetic to China than is the DPP.

Then came the crisis in Hong Kong. China's support for a deeply unpopular anti-subversion bill in Hong Kong has been seized upon by Mr Chen as a chance to portray China, and thus by implication, the opposition, as untrustworthy. A Pentagon report last week saying China has deployed about 450 short-range ballistic missiles on the coast facing Taiwan—100 more than it thought last year—further strengthened the case of Taiwan's China-sceptics.

Opinion polls suggest the popularity of the opposition candidate for president, Lien Chan, who is chairman of the Kuomintang (KMT), and his running mate, James Soong, from a KMT splinter group, the People First Party, has indeed fallen since they declared their union. Ma Ying-jeou, a vice-chairman of the KMT and mayor of Taipei, says the outcome of next year's ballot is now “too close to call”.

President Chen has a further card to play. He plans to conduct the island's first ever referendum, on a variety of issues, close to the presidential polls. China is bitterly opposed to the idea of referendums in Taiwan, fearing that they could be used one day to show public support for formal independence. “If China reacts, Lien Chan and James Soong might lose,” says Tim Ting, chief consultant of Gallup Market Research in Taiwan.

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North Korea

Let's all six of us talk about it

Aug 7th 2003 | BEIJING
From The Economist print edition

But talking isn't disarming

Reuters

North Korea is Bolton's nightmare

Get article background

IT IS a step forward, but don't assume that the hesitant foot will not be retracted. North Korea now says it is ready to talk with its neighbours, as well as with the United States, about its nuclear-weapons programme. It had previously insisted that the subject was just a matter between itself and America. The new talks, which will include China, Russia, Japan and South Korea, are expected to take place this month or next in Beijing, which hosted a fruitless American-North Korean get-together in April. It was there that the North Koreans admitted, for the first time, that they already had nuclear weapons.

Even the Chinese, who are widely credited with persuading North Korea to accept six-party talks, are not holding out great hopes. As the official *China Daily* newspaper puts it, “There is not too much to be optimistic about.” A settlement would require “more sincerity” from all concerned. The main problems are how to monitor whether North Korea is honouring any promise to dismantle its nuclear armoury, and its demand that, regardless, the Americans must sign a non-aggression treaty.

Still, an agreement to let the other countries in suggests that the North Koreans may be softening a little. They have previously resisted multilateral talks because they regard Japan and South Korea as American stooges. The Chinese and the Russians hardly fall into that category, but North Korea cannot regard either of them as anything like the close friends they were until the early 1990s, when Russia abandoned communism (and free handouts to North Korea) and China established diplomatic ties with South Korea. Certainly neither Russia nor China wants to see North Korea go nuclear.

North Korea suffered a setback on August 4th with the suicide of Chung Mong-Hun, one of South Korea's richest businessmen. His Hyundai Asan company ran loss-making ventures to build a tourist centre in the North's scenic Mount Kumgang area and to create a South Korean industrial park in Kaesong, just north of the demilitarised zone dividing the peninsula. He was also awaiting trial on charges of involvement in an alleged $500m pay-off to the North for agreeing to an unprecedented meeting of the two countries' leaders in Pyongyang three years ago.

The gulf between North Korea and most of the world remains as wide as ever. Last week America's top arms-control official, John Bolton, said that life in North Korea was a “hellish nightmare”: the country's leader, Kim Jong Il, lived like royalty while keeping hundreds of thousands locked in prison camps. North Korea retorted that Mr Bolton was “human scum”. And last weekend Mr Kim happily drew attention to his people's loyalty. He won a seat in the country's rubber-stamp parliament, unopposed, with 100% of the vote—including, naturally, his own.

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India

Making a splash

Aug 7th 2003 | DELHI
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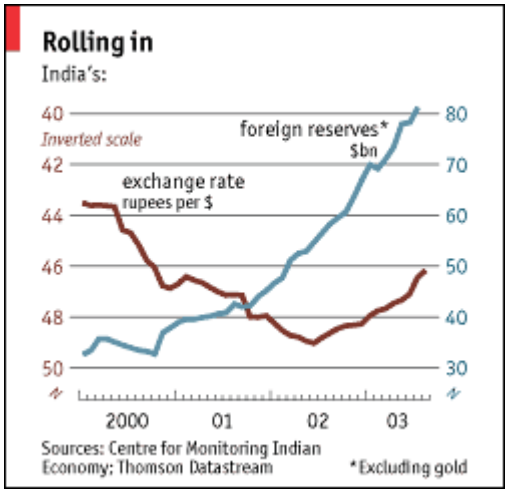
The boom in Indian economic optimism is only partly justified

A GOOD monsoon can still transform India's national mood, and not just among the rural majority. Just a month ago, economic commentators, depressed by figures showing that, in the financial year that ended in March, India's GDP had grown by only 4.3%, were lamenting prolonged economic underperformance. Now many are forecasting growth this year of 6% or more, and think that this pace can be sustained for some years. Just because it has rained?

It has certainly helped. Agriculture still makes up nearly a quarter of the Indian economy, and last year's drought was a heavy drag on the growth rate. This year's rains have been more favourable in timing, distribution and quantity than any monsoon for at least five years. A good harvest eases the burden of poverty alleviation, reduces inflationary pressures and boosts demand throughout the country.



There are other feel-good numbers besides the inches of rainfall. For a country which skirted bankruptcy in 1991, there is comfort in fast-growing foreign-exchange reserves, which, at over $80 billion, now cover more than a year of imports. Much of this can be attributed to inflows from foreigners and Indians living abroad, taking advantage of high rupee interest rates. But, despite the strength this has lent the rupee, exporters have also done well.

Even so, many economists see the improvement in the short-term economic outlook as just a cyclical upturn masking longer-term trouble. Last month a World Bank report again recommended reforms, calling for cuts in the government's huge budget deficit, for more sensible public spending, and for better infrastructure. It argued that without such “a major reform impetus”, the economy was unlikely to grow by more than 5% a year during the government's tenth five-year plan (2002-07), far below the targeted 8%. In this context, the surge in foreign-exchange reserves and the surplus on the current account suggest an excess of saving at the expense of productive investment.

Some, however, believe that the obsession with the holes in the government's finances and with the slow pace of liberalisation obscures a structural shift. Surjit Bhalla, an economist with Oxus Fund Management in Delhi, points out that in the past three years, while inflation has remained fairly steady, interest costs for Indian borrowers have fallen by six percentage points, and even more for those able to borrow in dollars. Taking advantage of this drastic fall in the cost of capital, and through its vast and cheap labour-force, India is well-placed to reap the benefits of globalisation. This, says Mr Bhalla, will be “India's decade”.

Still, even he has a caveat: that this rosy scenario relies on further falls in interest rates, to levels approximating those obtaining elsewhere in the world. And whereas many officials see the benefits of such a trend, many politicians, who worry about savers and their votes, do not.

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Solomon Islands

Time to helpem

Aug 7th 2003 | HONIARA
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Australians move into rebel territory

THE Australian-led force that landed in the Solomon Islands at the end of July to restore peace after years of ethnic unrest appears to be hugely popular with the ordinary people. A few politicians have grumbled about neo-colonialism, but the militia leaders who have grown fat and influential are downright worried.

By global standards, the violence has been small-scale, though in some cases extremely gruesome. The number of dead probably runs into hundreds rather than thousands. Nevertheless, large parts of the main island, Guadalcanal, are still no-go areas for many people, and the economy is in tatters.

Reuters

For as long as it takes

Nick Warner, the Australian “special co-ordinator” of “Operation Helpem Fren”, in the local pidgin English, says his country's commitment is for “as long as it takes” and could involve foreigners from elsewhere in the Pacific carrying out some government functions for the islands for years. Mr Warner said on August 6th that tackling corruption in the country was as important as disarming the rebel groups.

Still, disarmament is what the peacekeepers are aiming to do now. Joint patrols between the peacekeepers' police and the Solomons' police started almost immediately. The Australian combat troops with the force were largely confined to their camp at “Red Beach” for the first few days, with the warship *HMAS Manoora* keeping a notably visible presence off Honiara, the capital, and helicopters flying noisy patrols. But this week the Australians established a base on the Weather Coast in southern Guadalcanal, where the rule of law has collapsed. An offer of peace talks came from Harold Keke, the main Guadalcanal militia leader, who for the past four years has terrorised the people of the Weather Coast.

Mr Keke has a quasi-religious hold over his followers and is accused of killing dozens of people. Refugees from the area, now in Honiara, say he has ordered his men to build shrines for him. When the peacekeepers landed it was reported that Mr Keke's men said they were keen to shed white men's blood.

He is a former carpenter who became leader of the “Guadalcanal Liberation Army”, whose deadly foes are migrants from Malaita, a neighbouring island. In 2000 a Malaitan force moved into Honiara. A peace agreement was signed between various warring groups, but Mr Keke refused to acknowledge it.

Although the 2000 peace agreement technically disbanded most of the militia, guns are everywhere. Commerce has been badly hit. So it is little wonder that Ben McDevitt, the head of the force's police component, has made firearm control the top priority, and that includes Mr Keke's armoury. Although Mr Keke's fighters are clearly no match for the Australian-led force, he can still inflict considerable harm on the local people and is holding six Christian missionaries hostage, apparently as bargaining chips.

However, Australia, New Zealand and the other countries of the Pacific who have contributed to this force clearly mean business. They do not want a failed state on their doorstep, with all the implications that holds for drug-running, money laundering and its potential as a base for terrorist attacks. Nor do the islanders.

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Cambodia

Law of the jungle

Aug 7th 2003 | CHUP PLANTATION, TUMRING
From The Economist print edition

Just chopping it down

Get article background

ENVIRONMENTALISTS, scouring Cambodia's jungles for evidence of illegal logging, ask a passing farmer where trees are being cut down. “Take any path,” he replies. He is right: despite restrictions on felling trees and a ban on transporting timber, proof of illegal logging is easy to find. Lorries loaded with wood ply the roads in forested areas. Workers at a sawmill readily admit that they receive fresh supplies of timber every week. And all this is happening three years into a World Bank project to transform Cambodia's rapacious logging concessionaires into prudent “forest managers”.

Logging has long been cause for controversy in Cambodia. In the 1990s, during the first vaguely stable period the country had enjoyed in decades, the cash-strapped government dished out logging concessions. Many villagers who had made a living tapping trees for their aromatic and flammable resins found themselves destitute. Donor nations and organisations insisted that the free-for-all be brought under control. Since then, the government has cancelled some concessions, and, through new laws and decrees, imposed restrictions on the rest. When these measures failed to stop the destruction of Cambodia's forests, the government suspended all the logging concessions and imposed a moratorium on the transport of timber.

Since 1999, the donors had also insisted that the government hire an independent monitor to make sure these regulations were being observed. Global Witness, the organisation selected for the job, duly reported that they were not, to the government's fury. The investigators of the government's forestry department, Global Witness complained, were ignoring all the abuses it reported. The organisation hinted at corruption. The government told Global Witness to leave. Since then, there has been no official watchdog to keep an eye on Cambodia's forests.

The World Bank is withholding a $15m loan for Cambodia until the mess is sorted out. But the government insists there is no mess and that forest cover is on the increase, a claim that environmentalists and donors reject. Now the government is devising schemes to get around the forestry regulations. One is to reclassify forest areas as plantation land. That lets developers cut down their trees without interference.

This is what is happening at Tumring, in Kampong Thom province in northern Cambodia. A rubber plantation has opened a vast wasteland in the middle of Cambodia's biggest remaining lowland forest. The buzz of chainsaws drowns out birdsong. Villagers complain that the plantation firm, which is state-owned, took their land and cut down their resin trees without paying compensation.

Bill Magrath, the World Bank's forestry representative in Cambodia, says discussions are underway to compensate the displaced villagers, close the regulatory loophole that paved the way for the plantation, and hire new monitors to guard against further abuses. But if the pace of past reforms is anything to go by, many more trees will disappear before those discussions bear fruit.

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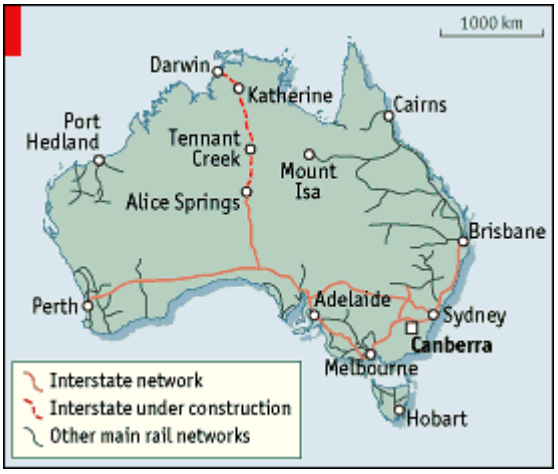
Australia

Outback express

Aug 7th 2003 | KATHERINE, NORTHERN TERRITORY
From The Economist print edition

Across Australia in 43 hours



WHEN Australia's federal government took control of the Northern Territory in 1911 part of the deal was to build a railway line linking Adelaide in the south to Darwin in the north. But for the rest of the century the line stopped at Alice Springs. In December the world's last transcontinental railway is at last due to be completed.

As a symbol of Australia's pioneering past, the unfinished outback line appealed to John Howard, Australia's conservative prime minister, who announced five years ago that it would go to Darwin. The project has boosted the sluggish economies of the Northern Territory and South Australia, where the rails, their 2m concrete sleepers and the line's 90 bridges were built. But is the line really needed?

Jim Forscutt, the mayor of Katherine, a town that will provide a station between Alice and Darwin, sees the railway opening a new economic frontier. “The top of Australia is the future of Australia,” he says. “Asia is on our doorstep.” This vision sees Darwin's port becoming Australia's Asian trading hub, with the new railway then distributing freight from Asia to the rest of the country. But the majority of ship freight goes straight to Brisbane, Sydney and Melbourne, where most of Australia's population is clustered.

Still, Bruce McGowan, chief executive of Freight Link, the consortium that will operate the railway, reckons it will become viable within three years based on domestic freight alone. One thing is sure: when the first train pulls out of Adelaide for the 43-hour trip to Darwin on January 15th the celebrations will recall the glamour of the old colonial pioneers.

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Occupying Iraq

Is the price, in blood and money, too high?

Aug 7th 2003 | BAGHDAD
From The Economist print edition

AFP

America's Paul Bremer (pictured) now talks of getting out, and holding Iraqi elections, within a year. There's a lot to be done first

Get article background

FLAMES belch out of the desert in northern Iraq where, on July 31st, an unidentified saboteur placed an explosive device under a buried fuel pipeline leading to a local distribution station. Five days later, an American civilian contractor working at the local refinery was killed when his truck drove over an anti-tank mine. The blasts, coming shortly before crude oil is to begin flowing from the Bayji terminus to Turkey, suggest that the 150,000 American troops in the country cannot fully protect either themselves or Iraq's infrastructure from low-level insurgency—and that oil exports are unlikely to cover the costs of getting Iraq back on its feet.

The day before the pipeline attack, Paul Bremer, head of the Coalition Provisional Authority (CPA) running Iraq, announced that he hoped to be going home within a year. It was not “unreasonable”, he said, that elections for a sovereign Iraqi government could be held by mid-2004. The occupation is a drain on American blood and treasure, and the occupiers may be looking for an exit strategy, perhaps before George Bush must stand for re-election.

Members of the Governing Council, a group of Iraqis appointed by the CPA, say they are anxious to take over Mr Bremer's job. But the council got off to a rocky start, taking more than two weeks to decide who was to be its president. In the end, it chose a nine-member rotating presidency, bringing in just about every member with an independent constituency who had a reasonable claim to the job.

The council will have difficulty coming up with an equally Solomonic solution to the thornier question of how to organise a constitutional convention. A constitution has to be drafted before elections can be held. Ayatollah Ali al-Sistani, a senior cleric, has issued a *fatwa* stating that delegates to a constitutional convention must be elected. Organising an election without electoral lists or even a recognised census would be virtually impossible. But, without one, it will be very difficult to convince all Iraq's political parties, ethnic and confessional groups, and tribes that they are fairly represented in the convention.

In the meantime, the council has a legitimacy problem. Its seeming ineffectualness has been mocked in newspapers, in Friday sermons and by ordinary Iraqis. Council sources reply that they could boost their

standing by taking over the very job that the Americans find it hardest to do: providing security.

The two main Kurdish leaders, Massoud Barzani and Jalal Talabani, have revived a proposal, originally made in May, to deploy an Iraqi security force in Baghdad and in the Sunni heartland, the main centres of attacks on American troops. The force would be composed of the Kurdish *peshmerga* and the Badr Brigade, controlled by the Supreme Council for Islamic Revolution in Iraq, plus the smaller militias of Ahmed Chalabi's Iraqi National Congress and Iyad Allawi's Iraqi National Accord, and units from local Sunni tribes.

“The best man for the [security] job is an Iraqi,” says Adel Murad, a spokesman for Mr Talabani's Patriotic Union of Kurdistan. Local counter-insurgency teams can tell a Baathist by his body language, he claims, and would know the places where their compatriots hide their weapons (under a slab of meat in the refrigerator, say). They might also be less likely to break down doors with shotgun, or use the other tactics that Iraqis complain of.

Among other grievances, Iraqi civilians frequently claim that raiding American troops steal the stacks of currency stashed in their cupboards. American military officials acknowledge that such seizures take place, but suggest that they are just another facet of the culture gap: the soldiers don't realise that Iraqis normally store cash in their houses, and assume that it is there as the result of criminal activity.

Sometimes raids have deadlier results. On the night of July 27th, forces from the elite Saddam-hunting Task Force 20 opened fire on at least two civilian vehicles which witnesses say blundered via side streets through their security cordon during a raid on a villa in the smart district of al-Mansour. Five people were killed. “Apologies are not something we have within military processes,” said Lieut-General Ricardo Sanchez, the senior army commander, when asked about offering compensation. But implied apologies in the form of “blood money” are very much part of Iraq's traditional processes.

The price of occupation has been estimated at $1 billion a week, contributing to what is already the largest federal deficit in American history

The resistance continues, without sign of ending. The insurgents appear to be abandoning ambush tactics (it is hard to hit a moving vehicle with an RPG rocket) in favour of improvised explosive devices, such as an artillery shell planted in a pile of roadside rubbish. On August 7th, a truck bomb exploded outside the Jordanian embassy, killing at least eight people.

Apart from the cost in American lives, there is the money. The price of occupation has been estimated at $1 billion a week, contributing to what is already the largest federal deficit in American history. America had hoped that oil exports would cover the cost of reconstruction, but the attacks have destroyed pipelines and discouraged private investment. Coalition and Iraqi oil ministry officials are cagey about revenues, but there is little doubt that income is far off target.

James Wolfensohn, the World Bank's president, expressed doubts during a recent visit, as to whether the short-term costs of rebuilding Iraq could be pushed on to the international community. Bank finance would flow, he said at a press conference on July 30th, but “there is a need first to have a constitution, to have a government, to re-establish Iraq as the Iraqi people would like to have it.”

With its mind on withdrawal, America may be having second thoughts about one of its pre-war aims: to reshape the Iraqi economy—privatising the oil industry, for instance—while it still has considerable leverage over an Iraqi government. Council members are said to be split on whether to maintain a state-owned oil company, but agree that all such decisions should be postponed until after elections.

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The Kurds of northern Iraq

We've never had it so good

Aug 7th 2003 | SULAYMANIYAH
From The Economist print edition

The Kurds are feeling pretty pleased with themselves, though also worried

Get article background

THE first 100 miles (160km) of the highway north from Baghdad towards the city of Kirkuk can be a white-knuckle ride. The honey-coloured foothills of the Jebel Hamrin provide perfect cover for an ambush. Over recent weeks, passengers fleeing the heat and misery of the capital have been relieved of their valuables, and their drivers have lost their vehicles. One shaken Arab diplomat who braved the route likened it to being "on a stage-coach riding through angry Injun territory".

Once over the Jebel Hamrin ridge, you can begin to breathe. Welcome to Iraqi Kurdistan, reads a hand-painted sign by the side of the road. Technically this is still Iraq but it is like entering another country. The land, largely untouched by the ravages of the recent war, is a world away from the lawlessness of Baghdad and its surrounds. Here they practise a different culture, speak another language, fly a different flag, and spend a different currency. And for the most part they are pretty happy.

To the visitor from the south, the streets of Sulaymaniyah and Irbil, the two main Kurdish cities, are not quite paved with gold, but they are a stark contrast to the sullen intensity of Baghdad and Fallujah. There is no curfew at night, no nervy American soldiers follow your movements down the sight of a gun barrel. Electricity and water are reasonably constant, and there are mobile telephones and satellite dishes aplenty. Shops brim with food and imported consumer goods. And there is scant need to look over your shoulder when speaking of matters political.

Hoshyar Zebari, a senior member of Massoud Barzani's Kurdistan Democratic Party, which controls the north-western part of the self-rule area, believes that the Kurds have at last made some smart moves. "We are in the strongest position yet in the history of modern Iraq," he says, admitting that earlier positions—from Saddam's brutality to the destructive civil war between Kurdish factions—set a low standard. The entry of five Kurds into the new Governing Council was a symbolic moment. From their rebel hideouts in the Zagros mountains to centre-stage in Baghdad has been a long, bloody trip for the baggy-trousered folk from the north.

Yet the Kurds now appear the most organised, and in many ways the most powerful, members of the council. They represent a large and relatively coherent constituency of 5m people, something that cannot be said of most of the other members, who are either former exiles, political novices, or represent a Shia majority that is badly split over whether to follow a secular or theocratic agenda.

At the same time, many Kurds are deeply concerned lest the instability racking the centre and south of the country spills over into the north, endangering their hard-won gains. The Kurds, says Mr Zebari, need to make sure that whatever regime takes over in Baghdad, it does not threaten them, as the Baathist regime once threatened them. At least for now, they are reluctant to disarm their militia. And the strategy of Mr Barzani and his old rival, Jalal Talabani, who leads the Patriotic Union for Kurdistan, is to remain at the heart of the action, in the Iraqi capital.

Their task, says Barham Salih, the prime minister of Mr Talabani's regional government in Sulaymaniyah,

is twofold. First, the Kurds must protect what they have: “We have learnt not to count on the goodwill of whoever is in Baghdad.” At the same time, they must ensure that the Iraq that emerges from the constitutional debate is “democratic, federal and pluralist”. The Kurds believe they can rely on a pro-federalist majority on the Governing Council. But they were angered by the non-committal comments on federalism that Ahmed Chalabi, head of the Iraqi National Congress, recently made at the UN.

There are other items too on the Kurdish agenda. Kurds, who have suffered economically since the fall of Saddam, want to see their slice of the national cake at or above the 13% of revenue that they got under the oil-for-food programme. They are also demanding a managed reversal of the Arabisation programme which drove thousands of Kurdish families from the areas south of the old green line that demarcated government-controlled territory from the Kurdish autonomous area.

Linked to this is the potentially explosive issue of what the Kurds call the “newly liberated Kurdish territories”: Kirkuk (with its oil); the land round Mosul (if not the city itself); Sinjar, to the west of Mosul; and Khanekin near the border with Iran. The Kurds believe these areas should be given the chance, through a plebiscite, to join a new Kurdish federal region. But such a move would upset a lot of people, not least Turkey, which has been watching the new-found Kurdish confidence with growing alarm—and is not averse to stirring up discontent among Iraq's Turkomen people, who live largely in the north.

But first, says Mr Salih and others, the Kurds must put their own house in order. That would mean unifying Mr Barzani's and Mr Talabani's administrations, and holding region-wide elections. If the Kurds genuinely want to inspire other Iraqis through their own “democratic experiment”, the excesses and malpractices that exist under the current two-party rule must disappear. “Now Saddam has gone, there is no hiding place,” says Mr Salih. “Our people and the people of Iraq will no longer be prepared to forgive us. We're in power now, not in opposition.”

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Israeli police investigations

Shadows over the Sharon family

Aug 7th 2003 | JERUSALEM
From The Economist print edition

Hard questions for Ariel Sharon and his two sons

ARIEL SHARON, Israel's prime minister, is facing police questions in connection with two financial inquiries that involve allegations of bribery. His younger son, Gilad, has been interviewed twice but is refusing to co-operate with fraud squad investigators. It seems likely that his other son, Omri, a Knesset member, will be questioned too. Speculation is mounting that Mr Sharon may have to resign if charges are eventually brought against either or both of his sons. If he himself is indicted, he will be required to stand down.

In a separate but uncomfortably close development this week, Mr Sharon was sharply reprimanded by the state comptroller (an ombudsman function filled by a senior judge) for failing to recuse himself from government decision-making on the rezoning of farm lands. The family farm on which Mr Sharon was born, in the centre of the country, is now owned by Omri.

Proposed changes in the regulations, wrote the state comptroller, Eliezer Goldberg, “entailed potential benefits for the prime minister's family”. There will be no prosecution here. The attorney-general, Elyakim Rubinstein, explained on August 4th that while he, too, believed that the prime minister's behaviour lacked “public integrity”, he had not found grounds for a criminal investigation.

But Mr Rubinstein is much less accommodating about Gilad Sharon's dogged refusal to answer police questions or to provide documents that the police demand. “Resort to the right to remain silent in a matter pertaining to the public is entirely unacceptable,” Mr Rubinstein asserted at the weekend. He vigorously rejected a hint by Gilad's lawyer that the investigations were somehow politically motivated.

It was unacceptable and “exploitative”, Mr Rubinstein said, for Gilad to refuse the police access to his home to search for documents, on the grounds that he lives on his father's ranch and his father, being a Knesset member, enjoys parliamentary immunity. On August 6th a judge ordered Gilad to produce the documents; he intends appealing to a higher court.

The “matter pertaining to the public” that Gilad is being coy about concerns a 1999 consultancy contract for hundreds of thousands of dollars that he signed with a businessman and Likud Party activist, David Appel. Gilad, with no prior experience in the tourism industry, was to advise Mr Appel on building a resort complex on a Greek island. Mr Sharon was foreign minister at the time, and the police have recommended that Mr Appel be indicted for bribery. The decision whether to prosecute rests with the attorney-general.

The other inquiry hanging over the Sharon family stems from Mr Sharon's alleged infringements of election financing laws in 1999-2000. Called to task by the state comptroller for spending $1.5m more than he was legally permitted, Mr Sharon undertook to repay the money by mortgaging his ranch. In fact, as it later emerged, he repaid it with a loan that Gilad and Omri arranged through an old family friend living in South Africa. Police are investigating the possibility of irregularities and bribery, and have been trying to trace the sources of this money in South Africa, America and Austria. On this, too, Gilad has refused to answer any questions.

Mr Sharon, aged 75, was unsmiling at a public appearance this week. Ministers said he seemed grumpy and distracted at cabinet. Still, say his friends, he is tough and has fought his way out of lots of other tight corners in his long career.

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Good news from Congo

Yes, really

Aug 7th 2003 | KINSHASA
From The Economist print edition

Africa's worst war is not quite over, but much of the country is slowly healing

Get article background

FOR evidence that things are changing in Congo, ride a lift at the Grand Hotel, the flashy, $11-for-a-gin-and-tonic haunt of Kinshasa's political elite. Five years ago, when Congo's civil war was just starting and the capital was under threat, the hotel was packed with terrified ministers plotting their escape routes. Now, after countless battles and between 2m and 4.7m deaths, the rebels have come out of the bush and occupied several floors of the Grand. Three weeks ago, they became politicians, part of a new government of national unity which is supposed to restore peace to this battered land. Their bodyguards—of whom vice-presidents are each allowed 108—slouch on their AK47s and pester the other guests for beer money.

On July 17th, Congo's youthful president, Joseph Kabila, swore in a bloated new cabinet. Posts have been meticulously shared out among the country's most important political and regional leaders. Under the terms of a peace deal signed in South Africa last year, three crucial groups—the civilian opposition and the two main rebel groups—each gets a vice-presidency. The ruling party gets one too, making four in all.

Two of the new vice-presidents have, ahem, close ties to foreign powers. Jean-Pierre Bemba, leader of a rebel army called the Movement for the Liberation of Congo (MLC), has received support from Uganda. Azarias Ruberwa, leader of the Rally for Congolese Democracy (RCD), is backed by Rwanda. Both Uganda and Rwanda have withdrawn their own troops from Congolese soil, but they are doubtless hoping to pull strings from afar. Meanwhile, the new Congolese government is expected to oversee a transitional period leading to elections within two years.

Western diplomats and donors are ecstatic about Congo's apparent outbreak of peace. Last month, the country was admitted to the club of “Heavily Indebted Poor Countries” eligible for debt relief. If the government keeps swallowing the IMF's prescriptions, its bilateral and multilateral creditors will write off $10 billion—close to 90% of the country's total foreign debt. That would buoy the new government and bolster the peace process. But will it benefit the 60m Congolese who cannot afford to stay at the Grand?

It is too early to say. On the ground, not much has changed. In Matonge, one of Kinshasa's densest neighbourhoods, there have been no public services for years, despite constant “tax collection” by the police and the government. The streets are paved with a thick layer of rubbish. Politicians driving their sparkling Mercedes cars through the market have to dodge metre-deep potholes. A decade of aid dependency has influenced the language: market women in bright dresses sell *pam*: a sweet potato named after the French acronym for the UN's World Food Programme.

AFP

Something to cheer about, at last

And yet, despite so many past disappointments, the people of Kinshasa are cautiously optimistic. Large swathes of the country are now relatively calm. Goods are starting to flow once more along the Congo river, the nation's main highway (see article). The World Bank estimates that 80% of the population lives on less than 50 cents a day, but peace could give them a chance to better their lot. Last week, the UN Security Council passed a resolution authorising the deployment of an additional 2,000 peacekeepers to Congo, bringing the total UN presence to 10,800 troops. This may help reduce the killing in the country's lawless east, particularly in Ituri province, where tribal militias have tried to exterminate each other. Crucially, the new resolution grants peacekeepers the right to use more force, removing a handicap that prevented them from stopping massacres in the past.

Despite all this good news, the new government has already run into problems. Ministers from the MLC and RCD initially refused to swear allegiance to the president, which delayed the first cabinet meeting by a week. The rebel ministers eventually backed down, but the challenge to Mr Kabila's authority was clear to all. Discontent has also been brewing about control of the army. Last week, Mr Ruberwa went back on an earlier agreement and demanded that his generals be given more regional commands.

To the dismay of many Congolese, several members of the new government served as ministers under Mobutu Sese Seko, the dictator who looted Congo into penury in the 1960s, 70s, 80s and 90s. There are even whispers that the Leopard's son, Nzanga Mobutu, might be asked to join the government as minister of culture. Meanwhile, popular politicians, such as Etienne Tshisekedi, have been excluded. Mr Tshisekedi, who was Mobutu's most persistent opponent, may challenge Mr Kabila in the promised elections. If they happen, as Mr Kabila insists they will.

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Commerce in Congo

A mend in the river

Aug 7th 2003 | KISANGANI
From The Economist print edition

With a semblance of peace, trade is flowing again

Get article background

LADEN with salt, sugar, cement, steel bars, bicycles and powdered milk, a convoy of cargo boats arrived in Kisangani on August 3rd. In a calmer country than Congo, this would not be news. But civil war had blocked the Congo river for five years. Now, with peace, came the first commercial delivery from the capital since the fighting began in 1998. The joyful citizens of Kisangani held races in dugout tree-trunk canoes to celebrate.

Congo has practically no paved roads, so the river is the main artery that keeps its trade alive. Kisangani, perched atop the river in the centre of the country, suffered terribly when that artery was cut. Suddenly, the only way to get goods in or out was on aeroplanes operated by associates of the rebels and their Rwandan and Ugandan backers.

Nomi Ikoti, a tailor in Kisangani, remembers the shock. Before the war, he used to buy reasonably priced, high-quality European fabrics that came up the Congo river from Kinshasa. When the river closed, he had to buy inferior materials for twice the price, flown in from Dubai, via Rwanda or Uganda.

Every other trader has a similar tale. High transport costs meant that Kisangani got less for its own products, notably palm oil, and had to pay more for everything it bought. Now, even though the town's docks are in disrepair, that should change. Indeed, the mere prospect of renewed river trade has been enough to drive down some prices. A measure of salt cost 200 Congolese francs ($0.60) in Kisangani in mid-July. A week later, it cost 120 francs.

Congo's commercial reunification is proceeding apace. Goma, on the Rwandan border, now has a direct air link, on rickety Russian planes, to Kinshasa, a journey that used to be a nightmare. The city also buzzes with the activities of Kinshasa-based mobile telephone firms that have set up relays on a nearby mountain. You can call the capital, 1,500 km away, for the cost of a local call.

Politicians can still be relied on to hobble trade, usually citing security. The governor of Kisangani is said to have exploded when he heard that 2,000 people were accompanying the cargo boats from Kinshasa. The convoy was detained for a while and, before your correspondent's eyes, two dozen soldiers burst into the home of the chairman of Kisangani's chamber of commerce and interrogated him.

For Kisangani to reclaim its former glory as a transport hub, parts of the river would have to be dredged. Fortunately, donors are keen to help. Some roads would be nice, too.

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Correction: Gallup International

Aug 7th 2003
From The Economist print edition

In our article on South African corruption on August 2nd, we quoted a “recent Gallup poll”. This was incorrect: the poll was conducted by Gallup International, a network of affiliated survey firms, not by the unrelated Gallup Organisation, owners of the Gallup Poll.

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Russia

Who's in charge?

Aug 7th 2003 | MOSCOW
From The Economist print edition

The risks that the latest scandal poses to Russia's business may be overstated but they reveal cracks in the system

INVESTOR panic, capital flight, even civil war—the battle between Yukos, Russia's biggest oil producer, and the authorities has given rise to the direst predictions. Since arresting Platon Lebedev, one of Yukos's main shareholders, on July 2nd, prosecutors have linked the company to everything from tax evasion to extortion to murder. The stockmarket index, the RTS, has dived.

Doomsayers, not least Mikhail Khodorkovsky, the Yukos boss, talked it all down with warnings that if the privatisations of the lawless 1990s were to be revisited, then the entire foundation of Russian capitalism would be under threat. More sober admonitions about the damage to investor confidence have come from everyone from Communist politicians to government officials, including the prime minister, Mikhail Kasyanov—whom prosecutors promptly told to mind his own business.

But so far the panic seems overstated. The RTS had hit a five-and-a-half year high before the scandal, and has since recovered more than a third of its losses. Yukos's own shares led both the fall and the recovery, and the contagion to others was slight, suggesting that investors do not see much of a risk beyond Yukos itself. Bond spreads, usually a measure of country risk, had been rising well before the trouble began, in response to an increase in American Treasury-bond rates. The apparent capital flight—a $1.1 billion drop in central bank reserves—is no bigger than other blips in recent months and even so is an illusion, says Christof Rühl, the World Bank's chief economist in Moscow: unrelated things, such as bond interest payments and Russians buying hard currency for their summer holidays, more than account for it. Last week Moody's, a rating agency, even put Russia's foreign debt on review for an upgrade.

If the uncertainty continues, investors could yet lose their nerve, particularly those making fixed, longer-term investments. But they are a hardy breed who already knew the country's risks. The latest row is just an uncomfortable reminder that the law in Russia is still a weapon for the powerful rather than a shield for the weak. And as the days tick by and the prosecutors' attention remains on Yukos, the fear of a generalised witch-hunt against Russia's plutocrats is receding.

A bit whiffy

Even if the economy stays unscathed, the affair sheds unpleasant light on the political system. The mere fact that after more than a month nobody can explain what is going on, just as in the days of Soviet kremlinology, shows how much the bad old ways still lurk beneath Mr Putin's economic boom and political stabilisation.

Some theories focus on a power struggle within the administration, between people with links to the security services, brought in by President Vladimir Putin, and those from Boris Yeltsin's era with ties to business magnates. Mr Khodorkovsky, keen to portray this to the West as a fight between good (capitalism) and evil (statism and secrecy), and as a threat to the country as much as to himself, favours such a reading. Others see it as a direct clash between him and a political class, perhaps including the president, worried by his increasing economic and political power. Still others think it is merely a private settling of scores between Yukos and individual officials who have managed to drag Mr Putin into it.

Through the murk are glimpses of something more worrying: a loss of control. Mr Putin's own near-silence on the issue suggests that he either approves of the attack on Yukos (but won't explain why) or does not know what to do. Conflicting messages from members of his government hint at splits. Only last week, a full month into the crisis, did the administration call a high-level briefing for the foreign press, and as a damage-limitation exercise the four-hour discussion was a failure.

Mr Putin, said the anonymous official, knew that the affair was bad for the economy and did not want to undo privatisations. But he would not explain why the president does not say so publicly (insisting weakly that he has done so several times privately). He could not explain who was behind the attack. He said repeatedly that the Kremlin has “no formal influence” over prosecutors, but avoided the question of why it cannot, or will not, use informal influence, when whoever launched the prosecutions evidently did just that. And he had no solutions to offer.

If indeed Mr Putin is less in command than he pretends, it would not be the first time. His inability to carry out complex reforms to the armed forces and the bureaucracy has shown that his influence on deeply embedded interests is limited. And he has often let disputes be resolved by maintaining a lofty detachment while opposing groups slug it out. But when the stakes are as high as in the Yukos case, that is a risky policy. If this is a fight between rival groups, then the balance between them that Mr Putin had maintained has been upset, and their squabbling is likely to dog his next term in office.

If, instead, the attack on Yukos is all part of his plan, it may in fact be less worrying. Mr Khodorkovsky has sometimes compared Russia's business elite to America's robber barons of a century ago; in fact, points out Roland Nash of Renaissance Capital, a Moscow investment bank, J.P. Morgan and John D. Rockefeller attained much greater economic clout than he has. But whereas America's legal system kept the magnates' power in check, Russia's does not. If the state is simply reacting to what it sees as excessive power by reining it in, then that is an unnerving and messy way to run an economy but it does not mean that other businesses are at risk.

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Azerbaijan's succession

Kim Jong-Ilham

Aug 7th 2003 | MOSCOW
From The Economist print edition

Heidar Aliev's anointed successor can take Azerbaijan only to new depths

IN A world where blatant nepotism is a disappearing skill, Heidar Aliev, now 80, is keeping old traditions alive. After running the country for most of the time since 1969, first in the Soviet era and then again since 1993, he was so keen to have his son Ilham succeed him that they both registered as candidates for October's presidential election—the son, of course, still loyally promising to vote for the father. This week, after a month in a Turkish hospital amid rumours that he was dying or already dead, the elder Mr Aliev had his son named prime minister before flying to the United States for treatment. On the president's death, the prime minister succeeds him.

AP

Daddy and his boy, a starry example to all

The older Aliev brought stability to Azerbaijan, after post-Soviet chaos exacerbated by an enduring conflict with neighbouring Armenia over the exclave of Nagorno-Karabakh, which is internationally recognised as part of Azerbaijan but is mostly peopled by ethnic Armenians, whose cousins in Armenia proper captured it in the 1990s. By a combination of guile and force, Mr Aliev has kept his own bickering, clannish elites under his thumb, as well as suppressing the media and opposition and ensuring that most people remain in poverty.

But his main achievement has been his geopolitical balancing act. In the early 1990s, buoyed by a United States eager to weaken both Russia's and Iran's influence in the region, he persuaded western oil firms to invest billions of dollars in exploring the Caspian's oil reserves. It eventually became clear that the riches to be had were far smaller than prophesied.

But Mr Aliev managed to keep up much of the interest, pushing tirelessly for a pipeline from Baku, the capital, through Georgia, to the Turkish port of Ceyhan; it was begun last year. Earlier this year a consortium agreed to spend $3.2 billion to develop the Caspian's largest gas field, which will send gas to Turkey through another pipeline whose economic need is doubtful. And yet, though the pipelines' point is to bypass Russia, he has kept that country sweet too, signing agreements on how to share the Caspian—a point of contention with Iran, which wants a bigger bit for itself.

Investors have not been put off by the listing of Azerbaijan as the 95th most corrupt out of 102 countries surveyed by Transparency International, an anti-corruption lobby. Nor have they been deterred by reports that the country has been used as a base by Islamist extremist groups; in fact, that seems to have helped. For years, thanks to lobbying by Armenian-Americans, Azerbaijan's economic blockade of

Armenia meant it could not get American aid, but last year Congress suspended the ban so that Azerbaijan could get military help to root out terrorism.

Whether Ilham Aliev can maintain his father's balance, especially with Russia and Iran poised to become far more important energy sources for the West, is another question. He has long been groomed for office but has held no responsibility greater than the state oil company's vice-presidency. Some officials this week tried to spin his inexperience as a good thing. But a faded clone of a corrupt dictator may not be exactly what the country needs right now.

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Central Europeans and the Holocaust

Still much too reluctant to talk

Aug 7th 2003 | BRATISLAVA
From The Economist print edition

A recent report chastises central Europeans for dodging recent history

"NOT trying hard enough; could do better" would sum up the verdict of the Simon Wiesenthal Centre, a Jewish human-rights foundation, on the efforts of most European countries to hunt down the last surviving perpetrators of Hitler's Holocaust. The Wiesenthal Centre singles out Austria for doing the least to pursue old war criminals, relative to the number probably on its soil. And it scolds Sweden and Norway for allowing statutes of limitation to rule out prosecutions.

But the centre, in a report on the investigation and prosecution of ex-Nazi war criminals around the world, reserves much of its criticism for countries of central and eastern Europe. There, it says, the fall of communist regimes and the access to previously secret archives should have meant "numerous new opportunities" for identifying and prosecuting war criminals. It finds instead that of all the countries in the region, only Poland has been making any serious effort to prosecute Nazi criminals—and then only with very limited success. The three Baltic countries, Belarus, Romania, Russia and Ukraine have shown very little political will to pursue Holocaust crimes, it says.

The centre has been trying to prod the Baltic governments into fresh efforts at investigation and prosecution. Last year it launched publicity campaigns in all three countries under the slogan "Operation Last Chance", offering rewards of up to $10,000 for information leading to the investigation of war criminals. The centre said last month it had received the names of 174 suspects in Lithuania, 37 in Latvia and six in Estonia. But one Lithuanian prosecutor says the information passed on to his office is of more use to historians and archivists than to courts of law.

As the Wiesenthal report shows, the ex-communist countries have special difficulties still in confronting the Holocaust. The problem afflicts not only those countries which collaborated with Hitler but even those which suffered terribly under him.

One reason is that the Holocaust was a taboo subject in communist countries for decades after the war. Accurate information was scarce or non-existent, dulling public understanding of the crime for generations. Communist history insisted on the communists themselves as both the main fighters against fascism and its main victims.

A second obstacle is the feeling among many people in ex-communist countries that their national sufferings under communism should command the world's attention and sympathy as much as, if not more than, the suffering of Jews under Hitler. They think it smacks of double standards to pursue ex-Nazis more vigorously than ex-KGB men. Anti-Semites add poison to the argument by caricaturing communism as a Jewish-dominated movement. Countries such as Slovakia, where a national regime allied itself with the Nazis, have an even stronger incentive to downplay the Holocaust. Many who regret wartime collaboration would prefer to see it forgotten. Those who admire it would rather emphasise its nationalistic aspect than its genocidal one.

Even heads of state can trip themselves up when talking on the subject. Recently President Ion Iliescu of Romania said that the Holocaust "was not unique to the Jewish population in Europe" and that "Jews and communists" were treated "equally" in Romania in the Nazi period. He said he opposed restitution of properties seized from Jews, because "the wretched Romanian citizen of today" should not "pay for what happened then". The interview caused an outcry—but not in Romania, where such views would have passed easily. Mr Iliescu's mistake, beyond voicing such comments at all, was in offering them to *Haaretz*, an Israeli newspaper.

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German history

Don't mention the RAF

Aug 7th 2003 | BERLIN
From The Economist print edition

Why some aspects of post-war German history are controversial

MOST people, in Germany and abroad, would argue that Germany has pretty well come to terms with its Nazi past. But, if a debate almost as boiling as the current Berlin weather is any guide, it will take a good while before Germans have sorted out a more recent piece of their history: the terrorist campaign waged by the Baader-Meinhof gang in the 1970s and 1980s. Even before plans for an exhibition about the group—also known as the Red Army Fraction, or RAF—are finalised, Germany's political and literary elite has begun arguing about the proper way to interpret the events of those tumultuous years.

The row may well become a full-blown German Kulturkampf, or cultural controversy, just like the furore that erupted over an exhibition in 1999 on the wartime Wehrmacht. The families of those killed by the RAF are protesting that the planned exhibition, now pushed back to late next year, would glamorise the group. Some politicians are calling the project a “monstrous scandal” and say it should not get state funding. Pundits are pondering whether the country is stuck, politically speaking, in the mindset of 1977, the peak year of RAF terrorism, when more than 30 people were killed.

It was the organisers' political naivety that triggered the row. The exhibition's working title—“The RAF, the Myth”—raises suspicions that the event will bolster an already rampant Che-Guevara-isation of the gang, whose machinegun-and-star logo is already popular on designer T-shirts. An early outline of the exhibition's concept asked, for instance, which of the RAF's “ideas and ideals” still have meaning.

What unites many Germans, on left and right, is that they would rather not talk about the RAF at all. Conservatives don't want to take a second look, because they reckon that amounts to honouring criminals. Liberals are hesitant because quite a few of them once sympathised with the RAF and don't want to be reminded of their political pasts. For instance, Otto Schily, Germany's interior minister, who long ago defended RAF terrorists as their lawyer, has let it be known that he has “serious doubts” about the exhibition.

The main reason the RAF won't be history any time soon, however, may be Germany's Nazi past itself, which was the touchstone for both sides: the terrorists and their sympathisers claimed they wanted to destroy a new fascist system, while the state believed it was up against a new type of fascist movement. This reproach of fascism from both ends of the ideological spectrum is why Germany's debate over terrorism has always been fiercer than in other countries, says Andres Veiel, director of a widely acclaimed documentary entitled “Black Box BRD” about Wolfgang Grams, a RAF member, and Alfred Herrhausen, the Deutsche Bank chief executive killed by a bomb in 1989. And, adds Mr Veiel, it will long remain so.

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The European Commission

A fragile financial future

Aug 7th 2003 | BRUSSELS
From The Economist print edition

An insider explains how millions go missing

FOR the European Commission to lose one senior accountant could be counted a misfortune; to lose two looks like carelessness. Marta Andreasen, the commission's chief accountant, went out in a blaze of acrimonious glory last year, when she accused the commission of lacking basic financial controls. She is now suspended on full pay—pending disciplinary procedures. The departure of Jules Muis, the commission's chief internal auditor, is less spectacular. He simply told the commission in June that he plans to leave next April, after three years in the job.

But in his own way Mr Muis, a former senior partner at Ernst & Young and financial controller at the World Bank, is quietly devastating. He says that the commission's financial report that he read on taking office was “shockingly primitive”. Since then, an improvement has been only “gradual”. He reckons he has achieved only “40% of what I wanted to do, and all of it has been uphill.”

At the moment the commission is investigating a scandal at Eurostat, its statistics service, which funnelled EU money into unofficial “black bank accounts”. As part of its investigation, the commission has asked all its senior civil servants to disclose any similar accounts run by their departments. Mr Muis thinks it “naive” to believe there are no further misdeeds to discover—though he fears that some commission director-generals may simply be unaware of financial wrongdoing within their departments. The entire European Commission was forced to resign in 1999 after a scandal about loose financial controls. Mr Muis believes it is still under threat from potential scandal. “If you have fragile controls, you have a fragile future.”

Mr Muis is at pains to stress that many of the European Commission's problems are endemic to any public sector. A “politeness culture” means that people advance by not rocking the boat. Vested interests resist change. Above all there is a reluctance to admit that many spending projects are “high risk”. Officials do not want to scare taxpayers by acknowledging that projects are open to abuse, so problems get hidden away. He thinks that public-sector bodies, including the commission, need a person with the powers and seniority of a private-sector chief financial officer to monitor all financial transactions and vouch for the integrity of accounts.

Some of the problems with the commission's financial controls, however, are unique to the European Union. A central difficulty is that while it is the commission's job to ensure that EU money is not wasted or stolen, more than 80% of the EU's budget of just under €100 billion ($114 billion) is devolved to countries and regions. The two biggest budget items, farm subsidies and regional aid, are both administered locally and regularly throw up fraud scandals. After the commission's mass resignation, a new anti-fraud office, with the acronym OLAF, was set up. But the fraud-busters have their work cut out, since they have to work through local law-enforcement authorities. Mr Muis reckons that “the commission could send in 500 auditors and it would still struggle to defeat the system underneath.”

Rather than pour cash into investigating fraud—“fire-fighting”—Mr Muis calls for a system of “fire prevention”. He thinks EU countries should have to sign an annual statement accounting for every smidgen of European money they spend and vouching for the integrity of their national systems of control. The government officials who sign these statements should be legally liable for their truth. The commission says it is thinking about this idea. But Mr Muis does not sound very optimistic that it will ever be adopted.

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Denmark's pigs

Too many, too smelly

Aug 7th 2003 | COPENHAGEN
From The Economist print edition

Should Denmark's exports of pork be chopped?

WHEN it comes to pigs, Denmark reigns supreme. This little country of just 5.4m humans raises 24m of them a year, making it the world's biggest exporter of pork. But while pigs mean profits for some, they cause headaches for others. This summer, Denmark's powerful farm lobby is under siege from an unusual coalition of environmentalists, animal-welfare people and the tourism industry.

It is primarily a matter of scale. While the number of farms is decreasing, their size is soaring. Twenty years ago, 60,000 Danish farms produced 13m-odd pigs. Now some 13,000 farmers produce nearly twice as many. And bigger farms, says the anti-porker brigade, mean bigger smells: Danish pig slurry would fill 90,000 average-size swimming pools a year. Kurt Pedersen, chairman of Gylleramt, a citizens' action group whose name roughly translates as “slurry-stricken”, says he had to close his management consultancy when a new neighbour built a slurry tank a pork chop's throw from his front door. The stench, he says, made life unbearable, his house unsellable. Windows had to be closed even in the summer; washing could not be hung outside. People in tourism, meanwhile, say the whiff will scare off tourists; campsite owners say that the caravans are staying away.

As for the greens, the Danish branch of Friends of the Earth, which is called NOAH, says that intensive farming is hurting the environment and making pigs suffer. NOAH wants to hit the pig barons in the pocket. Germany is the Danes' biggest market for pork. Over the next week or so, German visitors to Denmark's beaches will be handed leaflets urging them not to buy Danish pork. The farmers see the boycott appeal as little short of treason.

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Forest fires

Europe ablaze

Aug 7th 2003
From The Economist print edition

Could this year's summer fires have been prevented? Probably not

Get article background

WHILE holiday-makers revel in the sun, exhausted fire-fighters in Portugal, France, Spain and elsewhere in Europe are battling blazes that have destroyed at least 200,000 hectares (494,000 acres) of forest and killed at least 30 people in the past two weeks.

Portugal has been hardest hit; its prime minister has declared a “public calamity”. At least 14 people have been killed, thousands have lost their homes, 100,000-plus have been left without electricity, and more than 54,000 hectares of forest have been destroyed.

Forest fires are a natural phenomenon in Mediterranean climes, made worse by careless fag-smoking walkers and barbecuers and by the odd arsonist. But this year's long drought, extraordinarily high temperatures and high winds have proved a particularly potent cocktail. In France some areas have hardly had any rain since February and the thermometer has been flirting with the national all-time record of 44°C set in 1923. More than half of France's departments have asked for state aid for drought-hit farmers.

For all their destructive force, the fires offer a chance for European integrationists to show their mettle. The European Commission's Rapid Response Centre has tried to co-ordinate an international response. Since its inception last year, the centre has had the job of responding to man-made and natural disasters. This time it has helped seven countries to aid the two worst-hit countries, Portugal and France. In addition, Portugal has appealed for cash from the EU's Solidarity Fund for Disaster Relief; it has also asked NATO for more fire-fighting equipment.

Another EU-funded body, the European Forest Fire Information System, is meant to predict and so prevent large-scale fires. But its co-ordinator, Jesús San Miguel, says that this summer's conditions have been so extreme that preventive measures have made precious little difference.

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Charlemagne

A holiday from history

Aug 7th 2003
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Does it matter that Europeans have longer holidays than Americans?

THE United States may have a beefier economy, better universities, a more potent popular culture and an incomparably mightier military, but Europeans are quietly confident that they have the edge in one crucial respect. They enjoy longer holidays.

The figures are striking. The *Los Angeles Times* recently reported that Americans have an average holiday entitlement of 16 days a year—but most only take 14. In Europe, by contrast, at least a month of paid vacation is viewed as an inalienable right. The Italians get 42 days of holiday a year; the French 37; the Germans 35. Even the British, infected by the Anglo-Saxon (read American) business culture, get an average of 28 days off a year.

In August, the height of the holiday season, much of Europe simply closes down. The Italians, who are presiding over the European Union for the last six months of this year, produced a packed schedule of meetings. But August is one big blank space. There is simply no point in trying to get anyone to do any work. Taking a long summer holiday is so crucial to European self-esteem that a survey published this week in *Il Messagero*, an Italian newspaper, found that although 19% of Italians will not be going away on holiday this year, more than a third of the stay-at-homes intended to pretend that they were going away. Considerable numbers were prepared to buy tanning machines and to take the pets to the neighbours to keep up appearances.

One man's leisure, however, is another man's living. Tourism and travel are, by some measures, the world's largest industry—and Europe boasts of being the world's most popular destination. Figures from the World Tourism Organisation suggest that most international tourists travel to or within Europe. Europe is said to have a 58% share of the world tourism market. Of the top eight destinations, five are in Europe; France tops the list, followed by Spain, the United States and Italy. These figures, however, may mislead. Some 80% of holiday-makers within the European Union are from other parts of the EU. France's top place owes much to the country's inherent attractions but also quite a lot to its geographical position. Every Dutch or Belgian caravan thundering through France towards the beaches of Spain adds to the figure of foreign visitors to France.

Still, there is no doubting the economic weight of tourism in Europe. Indeed, any sign that the flow of tourists is slowing is greeted with neurotic headlines. *Libération*, a left-wing French newspaper, recently devoted its first three pages to a long lament about the decline in the number of American tourists

visiting France. (Now why could that be?) The Italian tourist industry had a collective panic attack after their tourism minister insulted Germans, who make up a quarter of all Europe's tourists, calling them “stereotyped, hypernationalistic blonds”. The minister in question was swiftly forced to resign.

Yet while Europe cannot live without tourists, it sometimes finds it hard to live with them. The city authorities in Venice are so fed up with some visitors' behaviour that they have just announced a list of ten offences for which they will impose on-the-spot fines. They include walking around bare-chested and bathing in fountains, even in the current heat. Spaniards and Greeks find the hordes of riotous, boozy young Britons that descend on them each summer a mixed blessing. Greeks were outraged earlier this summer when five guides from Club 18-30, a British company specialising in sun, sea and sex holidays for the young, were videoed having oral sex on a beach in broad daylight.

Such excesses of mass tourism will certainly do nothing to puncture Europe's love affair with the long holiday. Those unfortunate souls charged with managing the European economy are having to factor holidays into their thinking. On a recent visit to the headquarters of the European Central Bank, your correspondent bumped into Otmar Issing, its chief economist. He remarked that the article he had most enjoyed in recent editions of *The Economist* was an account of a study by Robert Gordon, an American economist, suggesting that a large part of the wealth gap per head between Europeans and Americans could be put down to Europeans' preference for taking longer holidays. You can see why Mr Issing might find the thought comforting. Maybe the relative under-performance of the European economy is simply a matter of consumer choice? The figures certainly show that when they are actually at their desks (or lathes) the Germans, French and Dutch (though not the British) are more productive than Americans (see article).

Are even Germans becoming lazy?

But not everyone is as sanguine about this state of affairs. Hopeful talk by some European politicians of building up the European Union as a new superpower is likely to prove vain so long as the EU's economic growth lags so markedly behind that of the United States—not to mention China's. Ulrich Schröder of Deutsche Bank's research department says he recently asked a Chinese intern of her impressions of Germany after a few months working in the country. “Germans are lazy,” was the reply. In a slightly more roundabout way, Wolfgang Clement, Germany's labour minister, has been trying to make a similar point. He recently caused a stir by arguing that Germans ought to work more and take less holiday.

Some of his countrymen may even be taking these strictures to heart. Germans traditionally take more foreign holidays per head than all other Europeans. But this year, German travel agents say that bookings are substantially down. Some attribute this to a new mood of economic insecurity. Perhaps there is a self-correcting mechanism in Europeans' taste for leisure over work. If taken too far, might the economy slow down so much that people no longer feel secure or rich enough to take the usual five weeks off? Something to ponder on the beach.

Charlemagne will be on holiday for the next three weeks.

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Migration

London's comings and goings

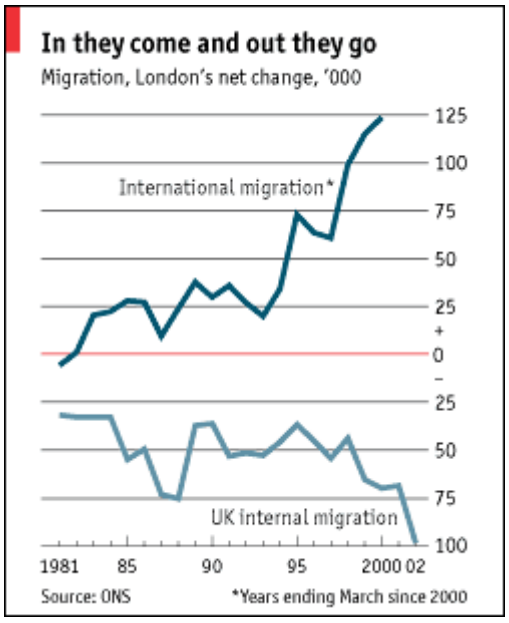
Aug 7th 2003
From The Economist print edition

PA

More foreigners than ever are coming to London, and more Britons are leaving

THE scene is so familiar as to be unremarkable: two businessmen of different nationalities in a London restaurant being served by a waiter from a third country, all of them speaking English. But such encounters illustrate a remarkable change going on in London. Foreigners are moving in, and Britons are moving out, faster than at any time on record. The consequences are being felt across the country.

Before the second world war, London's population grew steadily, along with that of most other British cities. After the war, along with that of most other British cities, it shrank—first because of the policy of shifting people out of the slums into new towns, and second because of the decline of the heavy industries which had brought people to the cities in the first place.



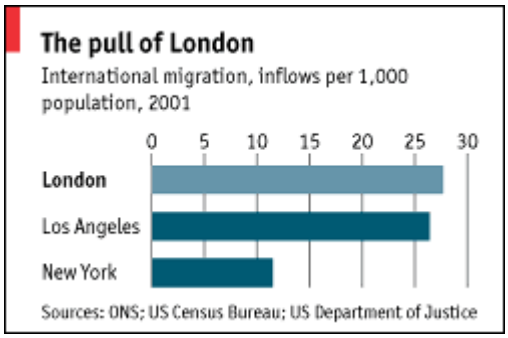
In the 1990s, other cities went on shrinking. Manchester's population dropped by 10% in 1991-2001, Liverpool's by 8%, Newcastle's by 6% and Birmingham's by 3%. London grew by 4.8% over the period, partly because it has a high birth rate, but mostly because the foreigners started arriving.

Britain's previous big wave of migration, in the 1960s and 1970s, shipped in south Asian workers, many of them to man the textile mills of the north. But these days, the jobs are in the south, so that's where the immigrants go. According to Migration Watch, a lobby group, two-thirds of the immigrants who have turned up in Britain since the mid-1990s have come to London. London's net gain of foreigners, after taking into account those who left as well as those who came, was 120,000 in 2000. And that's just the legal ones.

This has helped keep London's economy buzzing. According to Experian Business Strategies, a consultancy, the city's average annual growth rate in 1995-2002 was 3.3%, compared with 2.5% for the country as a whole. That's not just because London's population has grown a mite faster than Britain's. Employers say the workforce has changed. “I can get much better quality these days,” says Hari Salem, a hairdresser in South Kensington. “These foreign kids do everything before you ask them to. They show up the others' laziness. They make them get off their bottoms.”

Who are these people? The mix has changed since the 1970s brought mostly Indians, Pakistanis and Bangladeshis. These days, they come from everywhere—though, according to a Home Office report published in 2002, the proportion from high-income countries (as defined by the World Bank) is relatively high. While 67% of new immigrants to Britain come from high-income countries, 30% of those into Germany and 24% of those into France do. And Britain has more top foreign bosses (see article) than Germany, France or America.

There's something in the standard picture of the American banker and the Somali cleaner. Immigrants are economically polarised. Compared with the locals, more have degrees, but more have no qualifications at all (though that is partly explained by the fact that so many of them are students). On average, they earn 19% more than locals, but that disguises some sharp variations. White immigrants, by and large, earn quite a bit more than locals. Brown and black ones earn less.



Immigrants work more in growing businesses—such as health—than locals do, and less in shrinking ones—such as manufacturing. They are more self-employed than locals—at the top of the scale, 25% of Middle Easterners and 19% of Eastern Europeans are self-employed, compared with 11% of British-born people.

The foreigners' arrival has changed London visibly. New ethnic villages have sprung up all over the place. The Arabs have long been in Bayswater, the West Indians in Brixton, the Punjabis in Southall and the Bangladeshis in Tower Hamlets. Now the Poles are in Lambeth and Southwark, the Algerians and Moroccans are in Finsbury Park, the Kosovans and Albanians are in Enfield and Newham, the Iraqis in Barnet and the Congolese in Croydon.

The Europeans and Americans are all over central London. Foreign accents have long been as common as local ones in Mayfair; now that is true in large parts of Kensington, Chelsea, Holland Park and Notting Hill. Indigenous professionals, who would have lived in those areas in the 1970s and 1980s, have been forced to colonise dodgier boroughs such as Hackney and Lambeth.

The foreigners have helped drive London property prices further above those of the rest of the country. Over the past decade, according to figures from the Nationwide Building Society, prices in London have risen more than half as fast again as those in the rest of Britain.

Rising property prices hurt those struggling to get on to the ladder. But for those already on it, they have been a boon. Home-owning Londoners have found themselves sitting on large piles of cash. That has allowed them to do what Londoners, traditionally, long to do: move out.

The British have always been romantic about the countryside. While the great Dutch portraits are of dour-looking burghers and the French ones of half-clad ladies in luxurious interiors, Gainsborough painted gentlemen and their wives complacently surveying their rolling acres. The great French 19th-century novels—Flaubert and Balzac, for instance—are resolutely bourgeois. The great British 19th-century novels are either rural—Austen and Eliot—or they are about how horrible towns are—Dickens and Mrs Gaskell.

While prosperous French merchants built grand townhouses, 19th-century British industrialists aped the aristocracy and settled in the country. Poorer people have long shared the rural romance too. In an opinion poll in 1939, 61% said that they would like to live in the countryside. According to a Gallup survey in 1997, 54% would like to live in the countryside or a village, well over twice the number (24%) who currently do. Adding on the number who would like to live in a small town, 72% would like to live outside a city. “Quietness”, “escape from the rat-race”, “fewer non-white people” were some of the reasons given in a survey in 1994.

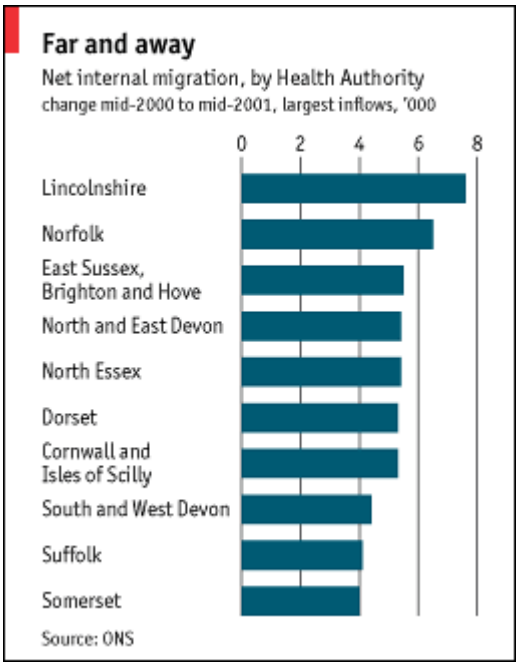
For those who find London's ethnic mix threatening, high levels of immigration have given them reason as well as opportunity to move out. They have increased pressure on London's stretched public services, too. More immigrants mean more children with a poor command of English. They struggle at school and make life difficult for teachers. In Inner London, 38% of children get five or more good GCSEs; in England as a whole, 48% do. Rising property prices have made it harder to recruit teachers and nurses. In London, 12% of teachers are unqualified or temporary. In England as a whole, the figure is 6%. Rich people, as a result, feel condemned to send their children to expensive private schools (fees around

£10,000 a year at secondary level): 16% of secondary school children go to independent schools in London, compared with 8% across England as a whole.

While the drawbacks to living in London have increased, so those to living in the countryside have diminished. “Not only does the countryside have the best schools and hospitals,” points out Tony Travers, head of the Greater London Group at the London School of Economics, “but it also has universal provision of services, like post offices and buses, mandated by central government. Broadband is now available almost everywhere. And these days, as shops have improved, you're never very far from a sun-dried tomato.”

So, fleeing poor public services, crime and congestion, and armed with the cash they have liberated from their homes, Londoners have been heading for the countryside in ever-larger numbers. The exodus, according to Tony Champion of Newcastle University, has always been made up of three groups: retired people, long-distance commuters, and those who have found jobs in the countryside. But these days, distance working—mobile phones, internet connections—and more flexible retirement ages have blurred the distinctions between the three groups. People often move out to commute in to their City job, then wind the job down but turn themselves into consultants and work from home.

Where are the townies moving to? Not just, as might be expected, to the home counties. Property in Surrey, Hampshire, Berkshire and Buckinghamshire is as expensive as in rich London, and councils are reluctant to let developers build. So areas farther afield have been growing faster recently (see chart). Farming's decline has helped the townies. According to the Royal Institution of Chartered Surveyors, nearly half the people who bought farms in the second quarter of this year were non-farmers.



Unexpected places are booming. Ely, not so long ago a sad little East Anglian town whose disproportionately large cathedral symbolised the area's centuries-old decline, has been the fastest-growing district outside the City of London over the past decade. “If you had lived here ten years ago, you wouldn't recognise it,” says Ray Harding, who runs community services at the East Cambridgeshire District Council. The town centre, which looked as though it was dying in the mid-1990s, has been revived by cafes, bookshops and art galleries. The downside, he says, is that you can't get a place in the station car park after 7.30 in the morning or a seat on the train home from London in the evening.

The influx from London is helping the rural economy. Townies who buy in to the countryside are an important source of growth. According to a report published by the Countryside Agency in March 2003, incomers (most of them former city-dwellers) are responsible for two-thirds of the new businesses formed in the countryside. And each of those businesses creates, on average, 1.7 jobs.

The outflow also sharpens the difference between London and the rest of the country. London is more foreign than the rest of Britain; more ethnically diverse; more economically polarised; faster-breeding; younger—and getting more so. The countryside, meanwhile, is as white as ever, and getting older. The divide between London and the rest of the country is also causing tensions—over London's disproportionate contribution to taxes, for instance, while public services in the capital are so bad.

And this process is likely to go on. London's financial services industry may have slowed down, but next year will bring a further boost to foreign immigration, when ten new countries join the EU. The other big EU countries will not give the Union's new citizens the right to work straight away; they intend to phase it in. Britain, in contrast, will give the newcomers free access to the labour market from the start. The Home Office reckons that will mean 5,000-13,000 extra net migrants a year, but since 20,000 people from those countries tried and failed to get into Britain in 2001, that seems likely to be an underestimate.

That is unlikely to trouble the government. Immigration may be politically sensitive, but the government understands how migration has driven London's economy, and London has driven Britain's. It wants the motor to keep on running.

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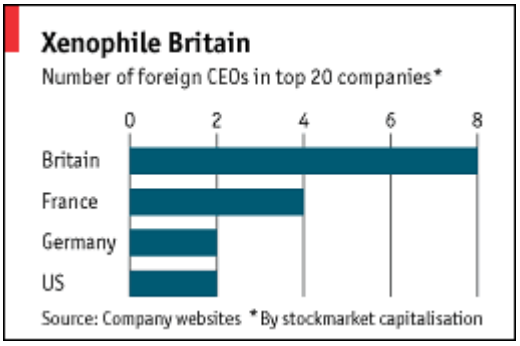
About sponsorship

Foreign chief executives

They cost plenty. Are they worth it?

Aug 7th 2003
From The Economist print edition

Foreign bosses are in. Some are good; most are expensive



FRENCH and German companies, presumably, need people who can speak their languages. Americans have such a large domestic pool to pick from that they have no need to look abroad. Far more than their counterparts in other countries, British companies pick foreign bosses (see chart).

So how do Britain's foreigners do? The best-known foreign high-achiever is Luc Vandevelde, Marks & Spencer's Belgian chairman, credited with the turnaround in M&S's fortunes since he joined in 2000. Within the FTSE's top 20, the strongest claimant may be BT's Dutchman, Ben Verwaayen, at work there since early 2002. But given BT's past shambles, could not almost anyone, British or Burundian, have done as well?

The performance of the other foreigners in the top 20 does not stand out. The French Jean-Pierre Garnier, for instance, has been boss of GlaxoSmithKline since it was born of a mega-merger in January 2001. Its 2002 earnings were well up on 2001, and are still growing. But at the present pace, 2003 will be only about 10% up on the original companies' joint figure for 2000: no triumph.

Yet Mr Garnier is famous—for other reasons. Foreigners are costly: especially when recruited from America, where, says the Hay Group, the head of a $1 billion turnover company last year earned $2.5m, against $1.6m in a similar British one. Mr Verwaayen joined BT, from America, on £700,000 ($1.1m) a year—plus a bonus up to 130%, a golden hello of £1m in shares, £200,000 to relocate and three years' £250,000-a-year housing allowance. Mr Garnier's base is Philadelphia. But last autumn shareholders forced the board to siphon off some of the cream in his planned new pay deal; and in May they voted publicly against his diamond-studded parachute.

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Foreigners and public health

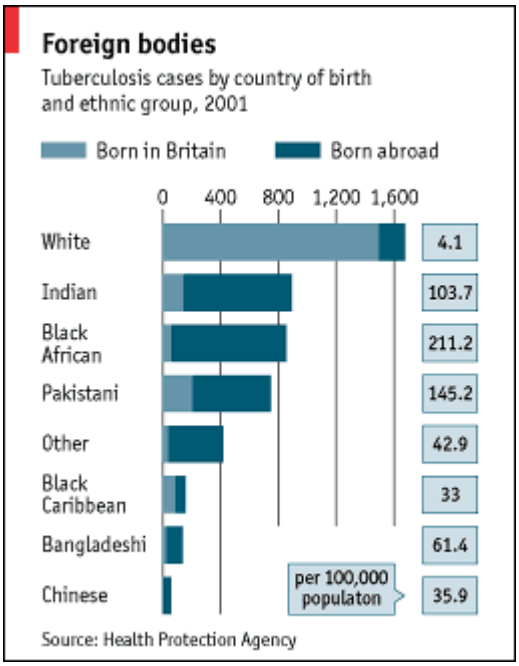
A fevered response

Aug 7th 2003
From The Economist print edition

Blaming foreigners is no way to solve Britain's public health problems

SUMMER in London brings a healthy flow of tourists to sample the city's attractions. Liam Fox, the Conservatives' health spokesman, reckons that the National Health Service (NHS) is one of them. He argues that “health tourists”—those who come to Britain explicitly for medical treatment paid for by the government—are draining the NHS and turning it into “the health equivalent of Disney World”. Moreover, he argues that asylum-seekers and immigrants are to blame for the recent rise in HIV and tuberculosis cases in Britain.

Dr Fox is not alone in his fears. Last week, the Department of Health issued its own proposals for dealing with the problem of health tourists, closing loopholes in current regulations which allow visitors and failed asylum-seekers to receive free hospital treatment. Dr Fox's own prescription is rather more severe. He proposes the introduction of an “entitlement card” for British citizens, allowing them and qualified asylum-seekers access to the NHS, but barring others from non-emergency treatment. Dr Fox also wants to follow Australia's example and introduce mandatory health screening of asylum-seekers and immigrants: those who might transmit their infection, create “undue” demand on the health service or be a long-term drain on the public purse will be seen off.



Many public-health experts question the wisdom of these ideas. There isn't much evidence that foreigners are a drain on the NHS: such data is hard to collect in a service freely handed out to all comers. And while more than two-fifths of newly-diagnosed HIV infections are among black Africans, many of them new immigrants, and around three-fifths of TB cases are in those born abroad, there is no evidence to suggest that they are spreading the diseases among the general population, according to Derek Bodell, head of the National AIDS Trust: experts believe that HIV infection rates among gay British men are rising because more are practising unsafe sex, not because they are hanging out with immigrants.

As for screening, Tory proposals requiring immigrants to get tested when they apply for entry are impractical, says Peter Davies, a specialist with TB Alert, a charity, given that many of the places they come from will not have reliable testing services, and fraud is all too likely. Moreover, screening for asylum-seekers already in Britain might deter them from seeking treatment, which would make dealing with diseases harder, says Mr Bodell.

The Conservatives' consultation paper is right to point out the delicate state of Britain's public health. Rates of HIV and other sexually-transmitted infections are soaring, tuberculosis cases are at their highest level for two decades and diabetes is on the rise. Dr Fox does have one good idea: a public health commissioner, reporting directly to Parliament, to work across government departments with the resources to make public health a priority. Unfortunately, this sensible scheme has been overshadowed by the Tories' quick fixes on foreigners, exactly the sort of health policy that “grabs headlines through gimmicks and initiatives” for which Dr Fox criticises the government.

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Politics

Stop digging

Aug 7th 2003
From The Economist print edition

The government's handling of Dr Kelly's death has been lamentable

AP

Kelly apologises for smearing Kelly

WHEN in a hole, stop digging. The failure to observe this iron law of politics forced the deputy prime minister, John Prescott, to apologise this week to the widow of David Kelly, the scientist at the heart of the Iraqi weapons row, after one of the prime minister's press officers told a journalist that he was a "Walter Mitty" character—ie, a fantasist. The press officer, Tom Kelly, broke his usual cover and grovelled publicly too.

No doubt the judicial inquiry into David Kelly's death will examine whether he was telling the truth at all times. Some of his evidence to the parliamentary Foreign Affairs Committee certainly suggests that he misled MPs about his contacts with journalists. Asked whether extensive direct quotes about Iraqi weapons broadcast by BBC Newsnight were his words, he first replied, "I find it very difficult. It does not sound like my expression of words." When he was then asked, "You deny that those are your words?", he replied, "Yes." The BBC now says it has a tape of the conversation with him that was the basis of the broadcast.

Even so, for Downing Street's PR machine to blacken a dead man's name, when its addiction to spin is so widely criticised, was particularly crass. Yet ministers are confident that things will go their way. They say they will be vindicated on the larger issue of whether the public was misled about the extent of the Iraqi threat.

The spies are preparing a report—yes, another dossier, to be presented to the prime minister a year after last year's disputed September dossier—on the progress made in the search for weapons of mass destruction. Whitehall sources say that several new bits of information will emerge including evidence based on interviews with Iraqi scientists that biological weapons had been produced in quantity. There is also said to be hard evidence of cover-up programmes designed to conceal WMD. "We would hope to be able to demonstrate in the fullness of time that almost all the information in the [last September] dossier was accurate," said an insider.

In these fevered times, almost any rumour makes a headline. So this week newspapers latched on to the news that the head of MI6, Sir Richard Dearlove, is to retire next year. But contrary to reports he is not going early. He will have been in the job for five years. All but one of his predecessors have retired after five years in post; the only exception being Sir Colin McColl who was MI6's chief between 1988 and 1994. Whitehall sources insist that Sir Richard's departure has nothing to do with the row over the government's use of intelligence. Though there was "a degree of nervousness" about last September's dossier, they say it is wrong to suggest that the intelligence agencies opposed its publication. "We understood that it had to be done," said an insider. "It's a bit like going to a dentist to have a tooth pulled out."

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Long hot summer

Reckoning trouble

Aug 7th 2003
From The Economist print edition

Riots are unpredictable. But police try

FOR a nation accustomed to leaden skies, it has been a difficult week. Rising temperatures forced a slowdown on the rail network, annoying commuters and sending Fleet Street hacks scrambling for adjectives. Few have suffered so much as police officers, for whom hot, sunny weather means an increase in street duties and the cancellation of leave—all thanks to new formulae for predicting riots.

The police have been trying to forecast public disorder since the mid 1980s. Shaken by riots on the Broadwater Farm estate in London, several forces began to track “tension indicators”—threatening graffiti, backchat, mysterious thefts of milk bottles—and allocated officers accordingly. It was a crude, perhaps counterproductive exercise. Housing estates were ranked in order of eruptive potential, in what turned out to be self-fulfilling prophecies when heavy pre-emptive policing raised the temperature. During the peaceful 1990s, risk assessment went out of favour.

Now it is back. In Burnley, a Lancashire town that suffered riots two years ago, the police have come up with a new, allegedly more precise, method for predicting trouble. Officers sift through a mountain of information, from weather forecasts to letters in local newspapers, and assign them values, on a scale of 1 to 6. Twice a week, numbers are crunched and a full report produced. As Chief Superintendent John Knowles puts it, the idea is to calculate “whether the town is tindered right”.

Burnley's formula takes in a lot of variables. A new business park, which created 150 jobs, recently lowered the economic tension rating. Football matches, which are graded on a scale of A to C, according to the pugnacity of the teams' fans, bump up the criminal tension score. Burnley's current overall rating is 3 (“heightened tension and increased risk of conflict”); last summer it hit 5, as a result of World Cup matches and council elections in which the British National Party was standing.

Burnley is not alone in putting faith in the power of prediction. Police in Bradford, which also caught fire a couple of years ago, are trying out formulae of their own. The Home Office is looking into a national tracking system, to be managed by the “national community tension team” formed after September 11th 2001 and revived during the Iraq war. This could co-ordinate the movement of officers between forces.

All this is to the good if it keeps the police on their toes. But the problem with predicting disorder is that it is hard to know what to look for. Risk assessment tends to be backward-looking: Burnley's police boffins came up with their list of criteria by sifting official reports on the 2001 riots. As Clive Emsley, who heads the European Centre for the Study of Policing, says, “the problem with prediction is that there are always things not on the radar.”

Indeed, one of the nastiest riots of recent years took place in Portsmouth's Paulsgrove estate, in August 2000. It was sparked by something then unknown: anti-paedophile hysteria.

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Royal Mail

Last post?

Aug 7th 2003
From The Economist print edition

Slimming down the Royal Mail is essential even if it provokes a strike

THE Royal Mail, Britain's last union-dominated state-owned monopoly, is currently losing £750,000 a day. In the face of e-mails, text messages and the prospect of postal services being thrown open to Europe-wide competition in four years' time, it is struggling to survive.

In view of all this, the decision by the Communication Workers' Union (CWU) to hold a strike ballot of its 160,000 members later this month seems curious. Turkeys rarely vote for Christmas, but postal workers have a reputation for backing their leaders. The strike ballot, after eight months of negotiations on a new pay deal, appears to have caught the management by surprise.

Allan Leighton, the Royal Mail's newish chairman, believed that he had got the union to accept structural reform resulting in the axing of twice-daily deliveries. The deal involved 30,000 voluntary redundancies in return for a 14.5% deal raising basic pay from £260 to £300 a week. The union, which says the offer has "more strings than the Philharmonic orchestra", has now rejected the small print of the 18-month deal. Most of the new money is conditional on the reforms being implemented by local post offices.

Mr Leighton is determined to push the deal through, if necessary by going over the heads of the union leaders. In a letter to postal workers last month, he wrote: "I got into trouble last time for talking to you direct, telling it straight. Well, tough, that's how we do things around here now." That's typical of his management style. He likes to tell people how, in his first job as a Mars management trainee, he learnt that the best way of sweeping up Maltesers from the factory floor was first to step on them. That tactic may work with spherical chocolates, but squashing militant union leaders is trickier.

Billy Hayes, the CWU's leader, and David Ward, the new deputy general secretary, are core members of the new "awkward" squad of left-wing union leaders. They do not seem interested in compromise. But will their members back them in a strike which many of them must know will make their jobs even less secure?

There are likely to be regional differences of opinion. The big sorting offices in London have had poor, often chaotic, labour relations for years. Their workers have already indicated their eagerness to strike in response to a Royal Mail offer to increase London weighting allowances by only £100 a year. But postal workers outside London may be less keen. The last national postal strike, when the union had a series of one-day strikes over several months without gaining much, is not a happy augury. Nor should the long-expensive and ultimately fruitless firemen's strike encourage them.

Some firms, such as mail order businesses, will be hard hit. The Federation of Small Businesses says that a strike would have a serious impact on its members. But most businesses will find other means of communicating with customers, and a national strike could cost Royal Mail as much as £100m a day.

The European Postal Services Act reserves letters of less than 100g for national mail operators but this restriction will be lifted in 2007. And already, PostComm, the British regulator, has granted licences that allow rival operators to compete with Royal Mail for bulk contracts for letters. To strike to protect jobs which are almost certain to disappear in any case does not appear to make much sense; but maybe postal workers will decide that, since lots of jobs are going to go anyway, they might just as well strike.

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Northern Ireland

Real danger

Aug 7th 2003 | BELFAST
From The Economist print edition

Dissident republicans are still active, but a big fish has been convicted

ON AUGUST 7th, Michael McKevitt, the man Irish police believe to be head of the Real IRA, was sentenced in Dublin to 20 years in jail for directing terrorism, an offence created after the bombing five years ago in Omagh, County Tyrone, which killed 29. Official satisfaction was dimmed by awareness that dissident republican groups are still a threat. Politics has stalled, but the dissidents are active.

When Mr McKevitt walked out of the IRA's governing council in protest against support for the peace process by Gerry Adams, leader of Sinn Fein, the IRA's political wing, he took few with him. An uncharismatic figure who ran a fish-and-chip shop in the border town of Dundalk, Mr McKevitt nonetheless had paramilitary credentials as a veteran quarter-master in the mainstream IRA, responsible for securing arms dumps throughout the island. He is also married to the vocal Bernadette Sands-McKevitt, sister of the hunger-striker Bobby Sands, an IRA icon.

His conviction was largely due to evidence from an American FBI and Garda agent, Dave Rupert, who described a garrulous man out of his depth trying to raise money for arms. Mr McKevitt's lawyers said he had never met Mr Rupert and that the agent invented evidence for cash.

It seemed for a time as though disgust at the Omagh bombing would destroy the dissidents. But attacks began again after a lull, though many have been foiled by police infiltration on both sides of the border.

On August 5th, eight men were charged after police surveillance found what they describe as a training camp in the remote countryside of County Waterford. Last week police told Mr Adams that dissidents plan to kill him. Belfast traffic was paralysed by well-co-ordinated bomb hoaxes, claimed in the name of the Continuity IRA. The previous week a bomb was loaded on to a bus, and the driver forced to drive towards a police station. In Londonderry in June police intercepted a massive bomb in transit, which they said showed Real IRA trademarks.

Prisoners with dissident connections in Maghaberry jail have been smearing cell walls with excrement for a month. They want segregation from loyalists as a step towards recognition as political prisoners. Protests in support of them have drawn no more than 200, but the echo of the “dirty” protests and hunger strikes in 1981 that won the IRA prestige is worrying.

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Correction: Tony Blair's medal

Aug 7th 2003
From The Economist print edition

Bagehot (July 19th) was wrong to say that Tony Blair was reluctant to accept a congressional medal of honour. He wasn't offered one, because it's a military award. Congress voted him a gold medal, America's highest civilian award.

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Non-governmental organisations and business

Living with the enemy

Aug 7th 2003
From The Economist print edition

Companies are increasingly under attack from NGOs. Should they co-operate?

Get article background

BEING the boss of a big company besieged by indignant activists is not much fun—though it is increasingly a fact of life. Mention, say, Greenpeace, to a typical boss and he will often turn apoplectic. Still, a growing number of executives are concluding that it is better to get along with the lobbyists than to attack them. Just look at the rapid spread of activist-friendly corporate social responsibility policies or listen to Lord (John) Browne describe how green nowadays is his firm, BP—even if it still makes its money selling oil.

Consider, too, the lengthening lists on the “Victories” pages of the websites of campaigning groups such as the Rainforest Action Network. Among its trophies is Citigroup. RAN campaigned to get the financial giant to adopt policies to reduce habitat loss and climate change, urging customers to cut up their Citicards and plastering the internet with nasty jibes against named executives. In April, RAN announced a truce, claiming that Citi had agreed to what it wanted. Not bad for a group with a dozen staff and a $2m budget.

In the contest between NGOs and companies, size is no advantage. Nor is being in the right. NGOs are increasingly pursuing their campaigns within America's notoriously plaintiff-friendly legal system, with its potential for huge payouts. (Worse, a case involving Nike now before the Supreme Court might discourage firms from entering into public debate with activists, by classifying their comments as “commercial speech”, which lacks America's usual protection for free speech.)

So what is the best policy for a firm attacked by such NGOs (non-governmental organisations)—which, in contrast to the many NGOs that simply get on with doing good works, aim to force firms to change by deluging them with bad publicity? Should the NGO be attacked, ignored or befriended? The answer may vary, depending on the kind of business a firm is in—and the nature of the NGO.

Many bosses face growing pressure to talk with their NGO critics—even if this leads to little more than cosmetic action. Many folk assume that firms such as Nike, Nestlé and Shell have paid heftily for being targeted by a high-profile campaign.

Barking not biting

The memory of a campaign may linger, but evidence of damage is scarce. Few customers of Citigroup seem to have cut up their cards. Craig Smith of London Business School studied the impact of an NGO campaign against a big European food firm and found that sales initially dropped but recovered within a few months.

As for the share price, even in the case of companies pilloried for investing in South Africa during the era of apartheid, two somewhat incompatible studies found little reason to respond to the activists. One found that pressure had no discernible impact on the share price; the other, that announcing withdrawal from South Africa actually cut the share price.

This lack of impact may not be entirely surprising. Although the utterances of NGOs are often reported in the media as if they were Holy Writ, as they have become more sophisticated—even business-like—some NGOs have selected their campaigns less for the significance of the cause than for their ability to attract publicity and to raise donations from consumers in the market for things to feel angry about.

Still, it can sometimes make sense to co-operate with NGOs. Some firms will incur lower costs than others, or even gain, if they capitulate quickly rather than fight, argues Debora Spar of the Harvard Business School in a recent paper.

Thus, it may be relatively cheap for a firm such as Nike, harried by activists for employing children to make its sports shoes, to accommodate the demands of NGOs by switching to other suppliers. But the cost for ExxonMobil to reduce its production of fuels that may contribute to climate change, as Greenpeace demands, would be huge: arguably, shutting itself down. Even though environmentalists invaded its offices dressed in tiger suits (and though rivals such as BP do talk to NGOs), Exxon has refused to negotiate on this.

But, notes Ms Spar, it may still pay for such firms to talk to activists when they can gain competitive advantage as a result. For example, Exxon worked with a large number of mainly local NGOs in Chad and Cameroon to plan the development of oil extraction in Chad and the course of a pipeline across both countries. DuPont has been wooing local activists for years to persuade them to let it mine titanium-bearing ore from a site near the Okefenokee National Wildlife Refuge in Georgia. Companies often cultivate local NGOs in order to secure permits.

Where brand matters, it may be better to talk than fight. That was Nike's response: its brand is the key to the value of its shoes. Burger King and Wendy's, two fast-food chains, were hounded by People for the Ethical Treatment of Animals (PETA) over how animals are farmed and slaughtered. Both caved in quickly. Now PETA wants court action to stop KFC making “false” statements about chicken welfare.

A different calculus faces Dow Chemical, which sells to other companies, not to consumers. Dow is being pursued by Greenpeace because it acquired Union Carbide two years ago: the campaigners want Dow to spend lots of money in Bhopal, the scene of a terrible disaster at a plant that Union Carbide had part-owned. They have invaded Dow's annual meetings for the past three years, picketed its plants and staged hunger strikes in America. So far, Dow's board has stood its ground and argued that it did not acquire Carbide's environmental liabilities when it bought the company.

An NGO attack can wreak havoc with employee morale and on recruitment—especially of the liberal graduates that contribute to many NGOs. This is not lost on NGOs. Citigroup's senior executives hated being pilloried and heckled, says Matt Arnold, a Greenpeace veteran with a Harvard MBA who worked out details of the truce. BP finds that university graduates frequently ask about its stance on climate change and human rights. Software companies cream off many of the best graduate chemical engineers, and BP worries that this is because they are seen as being greener.

Time to stop shouting

Perhaps the biggest risk in talking to NGOs is that a firm may just become a bigger target. Most environmentalists agree that Citigroup handles green issues more intelligently than its big rivals. It was targeted for the same reason that NGOs pick on firms such as Nike, Home Depot, Shell and now Ford: these are leaders in good practice, and care more about their reputation than others in the same industry.

This troubles some activists. “The more accountable you are, the more vulnerable to being attacked,” says Richard Sandbrook, a moderate British green who conducted a review of the mining industry's

environmental record that was boycotted by most green groups who lobby against mining. “Attacking those who take the lead strengthens the hand of doubters in companies,” argues Tom Burke, an ex-head of Friends of the Earth who advises Rio Tinto, a mining firm, on environmental policy.

Moreover, when companies make concessions, NGOs often come back for more. BP, which has worked hard to build a regular dialogue with a dozen or so large NGOs, is now arguing about the construction of a pipeline between Azerbaijan and Turkey that environmentalists and human-rights groups think will breed conflict, corruption and other horrors. André Madec, who managed Exxon's relations with local NGOs in Chad, designed an initiative on transparency with the government to discourage the corrupt use of oil revenues. He was aghast when big global NGOs publicly rubbished his scheme rather than trying to help improve it, thus ensuring that other African governments would not contemplate one.

Some moderate activists argue that strident campaigning may become less effective from now on. John Elkington, head of SustainAbility, a British consultancy, says that big NGOs refuse to recognise the need for accountability, just as companies once did. He thinks that their “market” is threatened by, for example, companies that have cleverly learned to speak the language of social responsibility.

Certainly, companies yearn to turn the tables. Helpfully, in June the American Enterprise Institute set up a website—called NGOWatch—with the Federalist Society for Law and Public Policy Studies to “bring clarity and accountability to the burgeoning world of NGOs.” Campaigners are appalled: Naomi Klein, Canadian author of “No Logo” and who describes herself as a “sweatshop activist”, called it “bizarre”. But increasingly, firms may conclude that if they are going to have to live with NGOs, they need to know which ones will play fair. Wise firms should talk to those—and leave the others to their tiger costumes.

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Fizzy drinks in India

What's your poison?

Aug 7th 2003 | DELHI
From The Economist print edition

An Indian NGO is making life hard for Pepsi and Coke

Get article background

AFP

What will they rot their teeth with now?

FOR years, residents of Delhi have known that, were it feasible, they might be wise to heed Tom Lehrer, a satirical singer: “Don't drink the water and don't breathe the air!” Since February, even many leading brands of bottled water have been off-limits, after an NGO reported tests showing that many were polluted with pesticide residues. This week, those who thought they could still quench their thirsts safely with the world's best-selling fizzy drinks were choking on their Pepsis and Cokes.

The same NGO, the Centre for Science and Environment (CSE), tested bottles from 12 soft-drink brands bought in Delhi. PepsiCo's and Coca-Cola's products were reported on average to contain pesticides many times the norms set by the European Union (36 times for Pepsi; 30 for Coke). They included chemicals that, in sufficient volumes, can cause cancer and attack the immune and nervous systems. Sample bottles obtained in America contained, said CSE, no traces of these poisons.

Pepsi's and Coke's local bosses responded with an indignant shoulder-to-shoulder rebuttal. The tests, by CSE's own laboratory, were, they claimed, simply wrong. Their products were entirely up to their companies' global standards and were tested in local and foreign laboratories.

They also cast aspersions on CSE's motives. Rajeev Bakshi, Pepsi's boss, spoke of “mischievous and malicious intent”, and said that, as in the bottled-water furore, multinationals were being unfairly singled out. India has a long history of local hostility to foreign brands.

On August 6th, the allegations were given the appearance of greater legitimacy when it was decided that Coke and Pepsi would no longer be served in parliament. Mr Bakshi acknowledged the allegations were harmful. The drinkmakers are contemplating legal action.

“Let them take me to court,” challenged CSE's Sunita Narain. She accused the firms of trying to discredit her NGO in a way they would not attempt with a western group. To little avail, however. Speaking as CSE's report made headlines across India, Miss Narain could boast: “I don't need a certificate from Coke or Pepsi.”

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French capitalism

Bull again?

Aug 7th 2003
From The Economist print edition

France's state-backed rescue of Alstom is all too familiar

“THE days when the state decided everything are past.” So declared Jacques Chirac, France's conservative president, during last month's Bastille Day celebrations in Paris. Alas, as his government's backing of a financial rescue of Alstom this week attests, he does not have the courage of his convictions.

Once, Alstom was seen as a crown jewel of France's statist economy. The heavy-engineering group won credit for the TGV high-speed train, an engineering marvel. Its energy division, especially its transmission and distribution group, produced high quality products and apparently impressive returns, thanks not least to a captive home market.

But as heavy engineering became a truly global business, the firm proved unable to keep up with the big boys, notably GE and Siemens. Worse, to create what it called a “European champion in power generation,” the firm acquired ABB's power-generation technology. Sorting out the legal and technical morass that arose from flaws in ABB's turbine designs has cost Alstom a whopping €4 billion ($4.6 billion) or so. And it turns out that those rosy profits of the past did not really reflect the underlying finances of the firm, which were underpinned by indirect subsidies and government contracts.

In recent months, Alstom tried to stave off bankruptcy by selling assets such as its industrial-turbine division, which Siemens took. The state has been pushing Areva, a government-controlled nuclear holding company, to inject perhaps €1 billion into Alstom in exchange for the firm's prized transmission and distribution business. But this seemed too little, and with debts of €5 billion, its bankers appear to have decided to avoid bankruptcy by looting the public purse. It was widely reported that BNP Paribas, Société Générale and Crédit Agricole, three big French banks that are among Alstom's leading creditors, made the preposterous suggestion to the government that the firm's collapse could undermine the French, or even the European, financial system.

For all his talk about markets and despite previous warnings from the European Commission's competition authorities, Mr Chirac could not resist the pressure to intervene. While denying that this was illegal state aid, his government declared that it would buy half of the €600m in shares the firm is about to issue in return for a stake of about 30%. This will be financed by the government's recent sale of shares in Renault, a French carmaker.

The state will also provide further disguised subsidies in various forms, among them financial guarantees. The French government's move immediately incurred the wrath of the European Commission, which said it must first approve the deal.

So is this a state rescue or not? Over a year ago, after similar denials, the French government intervened with €450m in “loans” to Groupe Bull, a computer firm once hailed as a world-beater. The European Commission sternly demanded that the loan be paid back within one year. Shocking as it may seem, it has not been paid back. That suggests this week's intervention, and the government's protests, add up to more bull in France.

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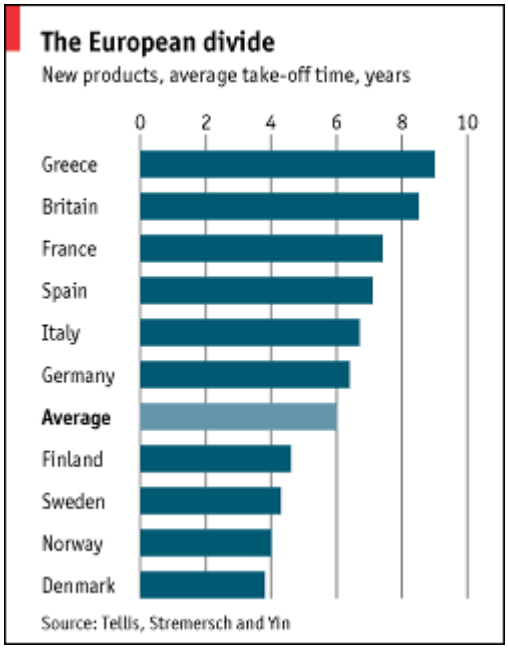
New products

When will it fly?

Aug 7th 2003
From The Economist print edition

European countries have surprisingly different take-off rates



THE next great consumer-products hit will be DVD recorders. The only question is when. A study by Japan's Panasonic and IDC, a research firm, reckons the take-off point could come this year, with a predicted 16m DVD recorders being sold worldwide—150% more than in 2002. But don't expect them to fly off the shelves everywhere. According to the latest research, there are surprisingly big national differences in the way new products perform.

DVD recorders have been around for a few years, but as with most new products they have been bought mostly by so-called "early adopters"—people prepared to fiddle to link them to their PCs, or pay high prices for the first stand-alone machines that connect to a TV. Panasonic expects mass adoption to occur as prices fall, PCs become equipped with them as standard (as many now are with DVD players), and stand-alone units become easier to use as a direct replacement for VCRs.

The take-off point for new products comes when slow initial sales suddenly accelerate towards a mass market. This averages six years after launch in America. White goods, such as kitchen and laundry appliances, have generally taken longer, but brown goods, such as TVs and CD players, often took off faster—mostly, it is thought, because families get more immediate satisfaction from them: who wants to watch a tumble dryer? With Europe supposedly a single market, product managers expect much the same to happen there. Indeed, the average new-product take-off time in Europe is also about six years. However, it turns out that national differences within Europe are huge (see table).

Dryers took just four years to take off in Sweden, but 11 years in Britain and 12 years in Portugal. Washing-machine sales began to grow rapidly five years after they went on sale in Germany, but 11 years in France. This presents product managers with a problem. Most believe that the big, lucrative markets of Britain, France and Germany are the best to launch into, says Gerard Tellis of the University of Southern California. Most European product launches take place in these countries. "But it could mean a manager pulls the plug on a product before it takes off," says Mr Tellis. Far better, he says, to use a so-called "waterfall" strategy in Europe—pouring products first into markets where they are likely to achieve an early result, such as Sweden, then spreading sales further afield as demand picks up elsewhere.

Mr Tellis worked with Stefan Stremersch of Erasmus University in Holland and Eden Yin of Britain's Cambridge University, gathering data on 137 new products in ten consumer-durable categories (refrigerators, TVs, etc) from 16 European countries. Economics alone can only partially explain the differences, says their recently published paper*. Rather it is cultural factors that seem to be responsible for new products taking off on average almost twice as fast in Scandinavian countries as they do in Mediterranean ones. Chief among these, say the researchers, is that Scandinavians are often more open to new ideas than people in other European countries. They certainly were to mobile phones, which is one reason why two of the biggest firms in that business, Nokia and Ericsson, are based there.

* “The International Take-off of New Products”, published by the Institute for Operations Research and the Management Sciences.

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Law firms

Legally blue

Aug 7th 2003 | CHICAGO, LONDON AND NEW YORK
From The Economist print edition

Even law firms are going under

FOR years, Altheimer and Gray was a pillar of the Chicago law scene. Brobeck, Phleger & Harrison had long been a force on the west coast. What both had in common in recent years besides an established place in their respective legal communities was aggressive expansion plans. This year they shared a common fate: liquidation.

In the past year, several venerable law firms have closed. Others are not in great health. In July, Clifford Chance, a London-based global giant, says it “delayed” its distribution to partners. It has begun talks on increasing its already large debt.

Law firms have traditionally kept their affairs private. Barred from being public firms, they have no incentive to disclose their financial results. In the past they also managed their operations conservatively, with property leases being a rare ongoing obligation and variable compensation paid mainly from accumulated profits, not as pre-determined salary. But in recent years, many law firms launched costly debt-financed expansions. When work turns down, this can become a death spiral. Once a firm begins to weaken, key partners leave, hoping to avoid being stuck with any residual liabilities. Receivables evaporate as clients delay paying bills.

Altheimer and Gray offers a cautionary tale. The 88-year-old firm, based in Chicago with offices in two other American cities and ten foreign countries, is dissolving this summer. The collapse of a firm that once had 350 attorneys around the world is one of the largest in American legal history, and comes after a fruitless search for a merger partner. The fact that its top attorneys were soon snapped up, often at higher salaries than they had been earning, suggests that Altheimer's demise was due to more than a soft economy.

What went wrong? Internal financial reporting was abysmal. Expansion plans added pricey lawyers and new offices (San Francisco and Paris opened most recently). The firm's private equity practice was hurt by the investment slump. The woes of clients such as United Airlines and Montgomery Ward did not help.

Tough times apparently caught many employees by surprise. “We had a distorted view of the firm's business,” says one former partner, who claims that the management committee did not provide a report on the unfolding financial disaster until two months before the crash. Meanwhile, a lease was renewed on the firm's Chicago offices last year, and office renovations were moving ahead.

Yet by late 2002 Altheimer's roster of lawyers was already falling. Collections from clients, which traditionally slow in the early part of the year, were even more of a struggle this year. Offers to law-school graduates were rescinded last spring, and offers to summer associates were cut back.

Partners (who may ultimately bear responsibility for debts) hope there is enough money in accounts receivable to cover its debt to LaSalle Bank, the firm's lender, as well as to its landlord and other creditors, such as the interior-renovation firm that filed a $1.1m lien against Altheimer for work on its downtown offices.

Good luck to them. Wind-ups often turn out to be long and messy. Brobeck was sued by low level employees and by its landlord. Hutchins, Wheeler & Dittmar, one of Boston's oldest law firms, dissolved in December, but its name still survives in court because of litigation between former partners over the terms of the liquidation. It is a fitting finale.

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Clothing

Rag-trade deals

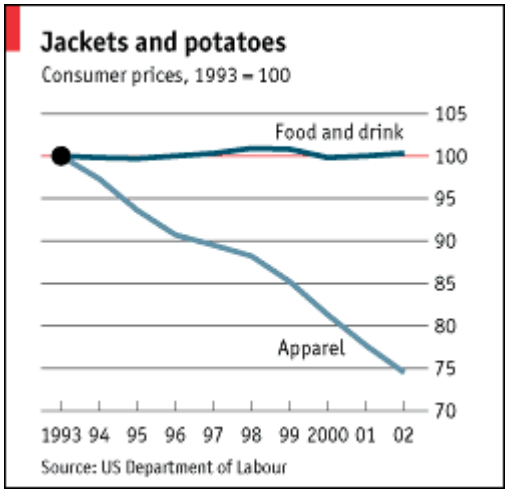
Aug 7th 2003
From The Economist print edition

As prices fall, clothing firms are making new plans for their brands

ONE of the certainties of visiting an American department store—and stores in many other countries too—is the familiar offerings from some of the world's most recognised clothing brands: stacks of Levi jeans, shirts from Polo Ralph Lauren, collections from Liz Claiborne and, of course, lots and lots of Tommy Hilfiger. All this sameness is a big problem for the apparel business. Department stores are increasingly being squeezed by specialist retailers on one side and discount chains on the other. At the same time, prices everywhere are falling as many items of clothing become commodities. For the brands concerned, this loss of sparkle could lead to yet more consolidation.

One company rumoured to be a takeover target is Hilfiger, which despite annual sales of close to $2 billion has been struggling. The firm insists that it wants to retain its independence, and on August 4th appointed David Dyer as its new chief executive. Mr Dyer has plenty of retail experience to help Hilfiger: he built Lands' End into a highly successful mail-order and e-commerce business before selling it to Sears, Roebuck last year.

Few of Hilfiger's problems are unique. If clothing prices were denominated in end-1992 dollars, prices would have tumbled below many other products, such as food and drink (see chart). Deflation means that a jacket that cost $100 in 1992 would cost $68 today, according to a study by A.T. Kearney's consultants.



Most firms have already adjusted to global competition, which has seen a big shift in garment production to low-wage countries and a subsequent glut of cheap manufacturing capacity. Hilfiger is based in Hong Kong, where the eponymous founder, Mr Hilfiger, now the firm's chief designer, formed a partnership with Silas Chou, a member of a wealthy Hong Kong textile family, who helped the firm list on the New York Stock Exchange in 1992.

According to A.T. Kearney, the strongest defence against price erosion is to support a clothing brand, especially a mature one such as Hilfiger, with innovative products. Nike does this by constantly applying new technologies to sports shoes, for example. To boost profits, the brand can be spread to other products, such as home furnishings, perfumes and fashion accessories. Hilfiger already does this through a variety of licensing agreements. But spreading the brand too widely can dilute its value.

An alternative tactic is to build a portfolio of brands aimed at different segments of the market. This has led some clothing firms to buy, license or invent new brands. With powerful discounters, such as Wal-Mart and Target, rapidly taking the place of many traditional department stores, it is becoming vital for companies to have products for the mass-market chains. “Consumers are looking for greater value, and increasingly more fashion, in their clothing offerings, and they are finding discounters' wide aisles and large shopping areas more convenient and ‘shopper friendly',” according to a recent report by Susan Ding, an analyst with Standard & Poor's, a credit-rating agency.

Levi Strauss, whose jeans are mainly sold in department stores and speciality shops, has tackled the challenge of supplying discount chains without devaluing its brand by developing what some industry experts describe as a “brand-within-a-brand”. Levi's Signature range of denim wear went on sale at Wal-Mart last month. Levi reckons almost a third of jean sales in America are now made in discount stores.

The process also works the other way. VF Corp, the world's biggest maker of jeans, last month bought Nautica for around $580m to help it move upmarket and into department stores. VF Corp's brands include Lee and Wrangler, which already dominate jean sales in discount chains. Adding Nautica, which owns the pricey Earl Jeans brand, also gives the firm a new, posher line to build a bigger presence in the smarter end of the sportswear market. This is expected to be a fast-growing segment as more people start to wear casual clothing, even in the office.

The problems in the clothing industry, together with a shift towards acquiring a collection of brands to sell at different price points, are likely to lead to more mergers and alliances. Companies are certainly shopping around. Last December, VF Corp was narrowly defeated by Phillips-Van Heusen, no longer a mere shirtmaker, in a fierce battle to buy the Calvin Klein clothing business. This suggests that, however Mr Dyer's makeover of Hilfiger works out, he may well one day become a buyer or a seller.

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Sport in Asia

The Yao crowd

Aug 7th 2003
From The Economist print edition

Courting Asia's adoring fans

Reuters

Love is the sweatiest thing

IT HAS been a good few weeks for American and European football—in Asia. Real Madrid, with newly acquired cult-hero David Beckham in tow, has been trouncing local teams in front of sell-out crowds across the region. (A hotel where Mr Beckham stayed has auctioned items from his room carrying his “sweaty stench”.) Malaysians have flocked to see English teams play in the Premier League's first-ever Asia Cup. In Japan, 43,500 fans of American football crowded into the Tokyo Dome to watch the “American Bowl”, a slugfest won by the Tampa Bay Buccaneers.

Asia is the world's fastest-growing sports market, and American and European clubs are scrambling to take advantage. Basketball and soccer are best loved, along with baseball in Japan. Britain's Manchester United says that nearly two-fifths of its more than 50m fans are now in Asia. Some American basketball games can reach almost 300m homes in China.

Why all the interest? One reason is that more Asians are acquiring televisions. Relentless promotions by Nike in China have boosted basketball there. In soccer, last year's World Cup in South Korea and Japan—featuring Mr Beckham's latest haircuts—stirred passions. Even little-known American football is starting to sell, with the National Football League sponsoring flag (touch) football for children.

More important, Asians are starting to play for big teams abroad. The name of Hideki Matsui, the New York Yankees' new slugger, adorns the baseball jerseys of many Japanese as well as New Yorkers. Last season, England's Premier League had two Chinese players. When their teams, Manchester City and Everton, played each other, 360m Chinese watched.

Bigger still—in several senses—has been the impact of Yao Ming, a 7-foot 5-inch (2.26m) Houston Rockets basketballer from Shanghai, and the top pick in last year's National Basketball Association (NBA) draft. He has become known as the Michael Jordan of China. Adoring Chinese are scooping up Yao jerseys and Yao-endorsed Nikes. The NBA has even launched a Mandarin-language website and will play exhibition games in China for the first time next year, featuring Mr Yao and the Rockets. Come the 2008 Beijing Olympics—when Mr Yao is expected to play for the Chinese squad—surely every boy in China will aspire to NBA stardom.

Much of Asia is still a developing market, so there have been predictable hitches. Sales executives curse China's counterfeiters, and the margins on merchandising in some poorer countries can be lower than at home, in order to reach the masses. But some of those home margins may be too high: last week the British government fined ten firms, including Manchester United, £19m ($30m) for fixing the prices of football kit. It was not the best news coming during the team's tour of the United States, its first since 1992. Still, if Man U can crack America as well as Asia, they will soon forget about that.

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Antitrust

Maturing monopoly

Aug 7th 2003
From The Economist print edition

Europe gets tougher with Microsoft

Get article background

EVEN critics now admit that Microsoft has matured as a company, in particular after its recent decisions to forgo share options and to improve financial control. But the software giant still is a monopoly abusing its market power. That, at least, is the opinion of the European Commission. On August 6th, its trustbusters gave the firm a “last opportunity” to defend itself in a long-running antitrust probe. If Microsoft does not come up with good arguments within a month, Mario Monti, the EU competition commissioner, could, among other things, impose a fine of up to 10% of annual revenues—over $3 billion.

The allegations made by the EU regulators are no surprise, although they seem to have found new evidence. Microsoft, they argue, is still leveraging its Windows monopoly in PCs into other markets: servers, which dish up data on a network, and audiovisual software, such as online music players. This could justify tough remedies. Microsoft may have to fully disclose how its PC and server operating systems talk to each other, so rival vendors are able to compete on fair terms. And it may also have to offer a version of Windows stripped of its audiovisual software, again to make life easier for competitors.

Much depends on the details, but these remedies would go further than those Microsoft agreed to in its settlement with America's Department of Justice. This may not be a bad idea, in particular when it comes to making sure that Microsoft does not unfairly extend its dominance into the server market. America's trustbusters themselves recently had to prod the firm into making it easier for competitors to license communications protocols that let PCs inter-operate with server computers.

The danger, however, is that tightening Microsoft's antitrust straitjacket (or imposing a stiff fine, for that matter) could trigger a transatlantic conflict—of the sort that was widely discussed when GE's takeover of Honeywell was blocked by Mr Monti after it had cleared regulatory hurdles in America. In any case, the European Commission's final ruling in the case, expected before the end of the year, is unlikely to be the last word. The firm has signalled that it would, if necessary, take the matter to the European Court in Luxembourg, which has thrown out a number of Mr Monti's antitrust decisions recently. Then again, negotiating a settlement would surely be more fitting for a mature company.

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Face value

South Africa's Cuban missile

Aug 7th 2003
From The Economist print edition

Is Nicky Oppenheimer an old-fashioned mining tycoon or a radical economic reformer?

EPA

IT IS hard to know what pleased Nicky Oppenheimer most this week. The affable, grey-bearded head of De Beers, a global diamond cartel, is delighted that South Africa's cricketers walloped England's team. Once a keen player, he intones the name of the captain, Graeme Smith, with near religious reverence. But he has another reason to be content. On August 5th he gathered 100 or so of the country's most influential people in the wood-panelled library of Little Brenthurst, his Johannesburg mansion, to hear his plan to reform the country's economy.

The Oppenheimer dynasty has presided over South African business for three-quarters of a century, ever since tough old grandfather Ernest won control of the diamond industry that was formed by Cecil Rhodes. Nicky Oppenheimer (some call him “The Cuban” because of that beard) has been in charge since 1998. The family still owns nearly half of De Beers and a chunk of Anglo American, another mining giant with interests in gold, platinum, construction and forestry. Although Anglo has moved its main listing to London, it and the privately owned De Beers are two of the finest jewels in South Africa's economy.

So no wonder a top-name crowd came to listen. President Thabo Mbeki brought the heavyweights in his cabinet; the country's most senior business leaders sipped wine and munched canapés; a sprinkling of higher-profile diplomats and newspaper editors paid their respects. Even a former president, F.W. de Klerk, made a rare appearance.

Mr Oppenheimer's big idea was couched in jargon about “win-win” strategies and “unique challenges” but comes down to this: the government wants to see more successful black-owned and black-run companies (a process known as “black empowerment” or “transformation”), but local and foreign investors are scared by the government's unclear plans for reaching this goal. “The risk-to-reward ratios are inappropriate. Businesses need certainty, to see clearly the rules of engagement for investing in South Africa,” says Mr Oppenheimer. Thus, he argues, clearer rules are needed on exactly what black empowerment means and who pays for it. And firms that take part in the process of transformation should be rewarded with tax breaks.

It is far from shocking that a rich businessman thinks that cutting corporate tax will solve any problem, and equally predictable that the Treasury does not share his faith. But few expected that an Oppenheimer, the arch symbol of liberal white privilege, would want to encourage more debate on black empowerment. What is behind his blast of political correctness?

Mr Oppenheimer talks of a family tradition of “public service to our country” and being “deeply committed to South Africa and its future.” His father, Harry, opposed apartheid, represented a liberal opposition party and long argued that black South Africans must take a fuller part in the economy. That remains the dominant business issue today and Nicky believes that “since it sort of fell upon one, well, you've got to pick up that ball and run with it.” His son Jonathan, a director at De Beers, chips in that the “family dynasty” has a special duty.

The chairman of De Beers can also afford to put his mind to such higher thoughts. Despite the global

economic slowdown, the diamond business is flourishing. The firm delivered a 34% rise in profits in the first six months of this year; it still controls nearly two-thirds of the world's $8 billion rough-diamond market. Mr Oppenheimer hopes he can return to lucrative diamond mines in Angola, and the firm controls all of Botswana's production. Even a long-term cloud over its fortunes may soon lift. Direct operations are forbidden in America, its biggest market, because the cartel breaks antitrust rules. But by sharing operations with LVMH, a luxury-goods group, De Beers may soon be able to open luxury shops and promote its sparkling wares.

But there are also more expedient reasons for the Oppenheimers' current interest in good causes. Nicky is learning to turn threats into opportunities. A few years ago De Beers most feared an international consumer-boycott campaign by activists who said that diamond-trading fuelled civil wars in Sierra Leone, Angola and Congo. Instead of opposing them, De Beers helped to draw up the Kimberley Process, a scheme backed by the United Nations for regulating and tracing the production of diamonds. By the end of July, 54 diamond-producing countries were listed as part of the process. Others will be excluded from legal trading. That helps to keep the industry clean—and bolsters De Beers's image. By pushing aside irregular traders, it also helpfully allows De Beers to keep a tight grip on the global supply.

Just as engagement worked globally for conflict diamonds, he hopes it will work now for black empowerment in South Africa. De Beers and other mining companies do not like tough legal measures that compel change. Mr Oppenheimer points to last year's mining charter that sets a target for 26% of mining capital to be in black hands by 2013. Bungled talks about that and the release of an early draft scared away 11 billion rand ($1.5 billion) of investors' money over six months in 2002, he says.

Diamonds are a government's best friend

Now the government seems intent on expropriating all natural resources on behalf of the state, and will soon claim royalties of between 2% and 8% on revenues earned from different minerals. The Treasury will announce the details soon, and the diamond industry is bracing itself for the highest tariff of 8%.

Further troubles loom. A legal campaign by activists who want reparations from firms that worked in apartheid South Africa is busying lawyers at Anglo and others. The campaign is not now backed by South Africa's government, but what about in future? As the problems pile up, Mr Oppenheimer's engagement strategy—whatever the merits of his economic plan—may well be the best way to avoid heavy-handed interventions later.

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Bond markets

Still in gear?

Aug 7th 2003
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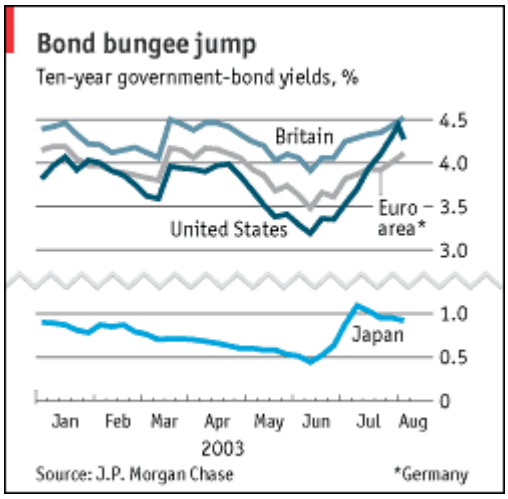
After a long period of falling yields, the world's bond markets have gone into reverse. That might cause economic recovery to stall

THE global bond market boom has come to an abrupt end. Over the past month yields on American Treasury bonds have risen more sharply than for 20 years. After hitting a ten-year low of 3.1% in mid-June, ten-year bond yields hit 4.5% on July 31st, before easing slightly. Bond yields in Europe and Japan have also risen, but by a more modest half of a percentage point (see chart). This could be a healthy sign: higher yields might reflect growing confidence that the global recovery is now well under way. Yet it could equally be a cause for concern: higher borrowing costs could cause the recovery to grind to a halt.

Recently there has been a good run of cheery statistics, signalling that economies may at last be perking up. America's GDP grew by 2.4% at an annual rate in the second quarter, well ahead of the average forecast of 1.5%. As tax cuts boost spending, most economists now expect GDP to grow by an annual rate of at least 3.5% in the second half of this year and in 2004. Second-quarter GDP figures have not yet been published for the euro area or Japan, but the latest numbers are looking brighter. Japanese household spending rose by a faster-than-expected 1.6% in real terms in the year to June. This week Japan's government upgraded its assessment of the nation's economy for the first time in five months.



In the euro area, said the European Central Bank on August 7th, there is “increasing reason” to expect activity to recover gradually this year and strengthen in 2004. Germany's Ifo survey of business sentiment rose in July for the third month in a row, and German share prices have risen by more than 50% since March. German retail sales jumped by 2.7% in June, boosted by an extension of shop opening hours. The latest survey of purchasing managers in the euro area showed that manufacturing continues to contract, but that services are now expanding again. Nevertheless, *The Economist*'s poll of forecasters is still pointing to GDP growth of only 1.7% in 2004, half that in the United States.

However, America's GDP figures are not quite as robust as they look. Growth in the second quarter was flattered by a 44% (annualised) surge in defence spending to pay for the Iraq war, the biggest increase

since 1951. Even including this, the growth rate of 2.4% was well below the economy's potential, so companies are still cutting jobs. Falling employment largely explains why the Conference Board's index of consumer confidence fell sharply in July.

The argument that rising bond yields mainly reflect stronger growth is therefore shaky. It is true that bond yields usually start to rise once recoveries are firmly under way, because investors expect central banks to raise short-term interest rates in order to hold down inflation. But today this looks premature. There is ample spare capacity and thus little chance that inflation will take off. So there is no need for the Federal Reserve to raise rates yet.

America's GDP is now some 2% below its potential level (ie, where it would be had the economy been running full blast). As long as output remains below potential, inflation should continue to fall from its already low level. Assuming that the long-term potential growth rate is around 3%, the economy would have to grow at 4% for two years to eliminate the gap. Even if this happens, inflation could fall for two years yet. Goldman Sachs does not expect the Fed to raise interest rates before mid-2005.

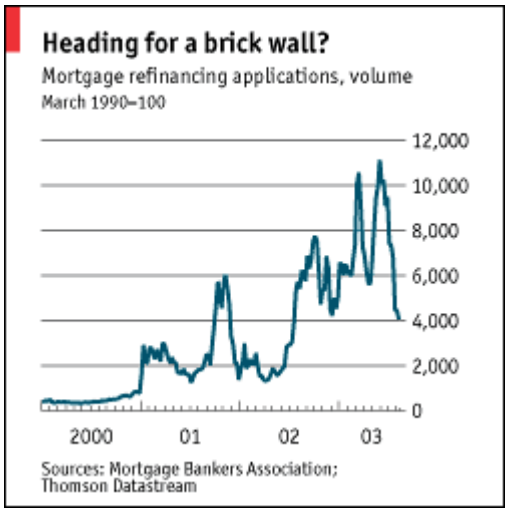
America's GDP deflator rose at an annual rate of only 1.0% in the second quarter. Excluding food and energy, inflation was only 0.5%. With inflation so low, a brief period of falling prices still cannot be ruled out. If so, bond yields may have rebounded too soon. Indeed, if inflation is set to fall further, real bond yields already look on the high side. Conditions today are very different from those in 1994, the year of the last big bond-market sell-off, when Treasury yields rose by 300 basis points. Then America's output gap was small and unemployment was falling.

A good part of the jump in bond yields probably also reflects the confusion caused by the Fed's bungling of its communications with financial markets. In May and early June the Fed hinted strongly that it might buy Treasury bonds in order to push down yields and so ward off deflation. Yields fell. But in its statement after its monetary-policy meeting in late June and in testimony to Congress by Alan Greenspan, its chairman, last month, the central bank played down the likelihood of its purchasing long-term bonds. Unsurprisingly, bond yields have since soared.

If joy at higher growth or fear of inflation do not justify higher bond yields, is there not a risk that the bond market might cause the recovery to stall? If so, it lies mainly in the impact of higher bond yields on mortgage refinancing, which has been a vital source of growth since the stockmarket bubble burst in 2000. (Higher yields will also hurt America's big mortgage companies: see article.)

Lower interest rates and rising house prices have allowed households to indulge in “cash-outs”: switching to cheaper, bigger mortgages and then spending the extra cash on cars, clothes or a new kitchen. Some economists worry that a slump in mortgage refinancing could now cripple consumer spending.

As bond yields have climbed, so have mortgage rates. In addition, house-price inflation has slowed this year. This will give households less incentive to borrow more against the value of their homes. Higher mortgage rates will also tend to dampen house-price inflation further, reducing the scope to extract capital gains through refinancing. As mortgage rates have risen to 6.4%, mortgage refinancings have fallen. They have already tumbled by almost 60% since their peak in May (see chart). This will leave households with less spare cash to spend.



Jan Hatzius, an economist at Goldman Sachs, estimates that mortgage-equity withdrawal (the amount by which new borrowing exceeds new residential investment, which is thus available for other uses) boosted year-on-year growth in American consumer spending by a full percentage point in 2002 and the first half of 2003. Refinancing already undertaken will continue to boost spending in the second half of the year. Assuming that bond yields stay at 4.5%, Mr Hatzius estimates that a fall in mortgage-equity withdrawal will dock around one percentage point from spending growth next year.

In other words, the growth rate in consumer spending will slump by two percentage points between early this year and next. This, says Mr Hatzius, is likely to push economic growth below its potential growth rate by the second half of 2004. Others have similar prognoses: economists at Lehman Brothers reckon that the loss of cash-outs from mortgage refinancing could fully offset America's net fiscal stimulus over

the next year (taking into account the tightening of budgets by state and local governments).

Those tax cuts, it is true, should ensure that America's growth continues to rebound over the next six months. But if consumer spending and the economy falter, the scope for easing monetary or fiscal policy will be much more limited than a year or two ago. Bond yields may have turned too soon. They may yet turn again.

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Central banks

As clear as mud

Aug 7th 2003
From The Economist print edition

Being open and being predictable are rather different things

“TRANSPARENCY” has been the buzzword in central banking for many years. The idea is that the more financial markets understand about the way a central bank sets monetary policy, the easier policy will be to predict and the more effective it will be. For example, if bond markets can anticipate changes in official interest rates, these changes will affect the cost of corporate borrowing more swiftly than if they cannot. In practice, though, Joachim Fels, an economist at Morgan Stanley, finds that the more transparent a central bank is, the less predictable it tends to be.

Mr Fels uses polls conducted by Reuters before central banks' policy meetings, in which economists are asked whether they expect interest rates to change. Since January 1999, the analysts have predicted 18 of the 19 rate changes by America's Federal Reserve, or 95%. Bank watchers scored only 59% for the Bank of England and 67% for the European Central Bank (ECB).

Yet the Fed is the least transparent of the three. Unlike the Bank of England or the ECB it has no explicit goal for inflation, no regular publication that explains its decision-making and no regular press conferences. The Bank of England is a model of transparency but is the least predictable. The ECB lies in between.

How come the least transparent central bank, the Fed, is the most predictable? The answer is that the Fed cheats. It often signals its intentions to financial markets through selected journalists—not always perfectly (see article). The Bank of England has been hardest to second-guess because in recent years it has had the tricky task of overseeing Britain's two-speed economy: house prices and consumer spending have boomed, while manufacturing has been in recession. This has made inflation and hence interest-rate decisions harder to forecast.

The ECB is becoming easier to read. Indeed, over the past two years the Reuters poll has predicted every one of its rate changes, which suggests that the bank's communications have improved. However, predictable does not mean right. Some economists say that lately the ECB has been too slow to cut interest rates. Better, perhaps, to be unpredictably right than predictably wrong.

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Freddie Mac and Fannie Mae

Stormy summer

Aug 7th 2003 | NEW YORK
From The Economist print edition

No rest for America's two huge mortgage companies

WITH America's Congress in summer recess, the political attacks on Fannie Mae and Freddie Mac, the country's giant mortgage underwriters, are in abeyance. With so many friends in Washington, the two institutions probably have little to fear from politicians in any case. The financial markets, however, are a different matter. And they do not take August off.

The stockmarket has already given Freddie Mac and Fannie Mae a good kicking. Since June, when it emerged that Freddie Mac had made a mess of its accounts and its three top executives departed, the company's shares have fallen by 20%, even though the market as a whole has risen. Late last month, just when the share price seemed to have steadied, a report by its board concluded that Freddie Mac had cooked up lots of complex financial transactions over several years, intended mainly to mislead investors. Fannie Mae has not been criticised, but because investors treat the two as a pair, its share price has fallen by 15% since June.

The more important shift in sentiment, however, has been in the debt markets. These are vital for Freddie Mac's and Fannie Mae's business: both rely on borrowing large sums of money cheaply, which they then relend for mortgages, some of which they keep on their books, and some of which they bundle together and resell in the form of mortgage-backed bonds. Because investors reason that the government would step in if either company ran into trouble, their debt has usually yielded only a little more than Treasury bonds.

Spring fever

By this spring, with bond markets booming and credit spreads narrowing, Fannie Mae and Freddie Mac could borrow for ten years at a mere one-third of a percentage point more than the American government. Since then, the implicit government guarantee has lost its magic. The yield on Treasuries has climbed. Yields on mortgage-agency debt have risen more dramatically still (see chart).

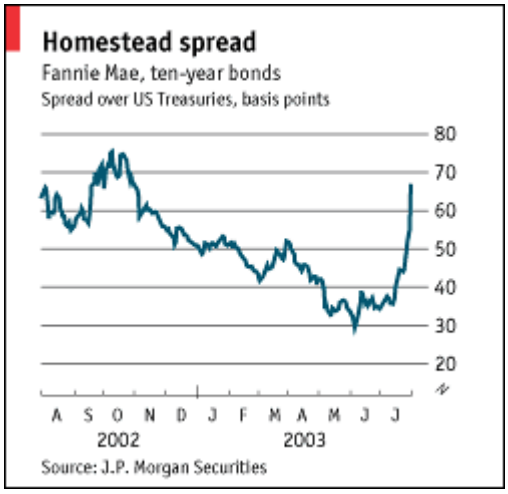
This has had a direct impact on mortgage rates. A fixed-rate, 15-year loan now costs borrowers 6.4% a year, up from 4.5% in the early spring. Franklin Raines, Fannie Mae's chief executive, said recently that before rates jumped his agency could profitably refinance 90% of mortgages; now the proportion is less than half that. The interest-rate environment, says Mr Raines, has been “the fixed-income equivalent of the 100-year storm”.

Certainly, anyone wanting to borrow money against a house has been caught out, But should the same be true of Fannie Mae and Freddie Mac? After all, swings in rates are hardly unknown, and in the past the companies have argued that their hedging strategies could contain all but the most extreme volatility. But maybe they are vulnerable after all. Bert Ely, an analyst in Virginia, reckons that almost half of Freddie Mac's and Fannie Mae's debt matures in less than 12 months. When rates rise, therefore, their borrowing costs rise quickly too. Meanwhile, because mortgages last for several years, at fixed rates, their revenues could remain stagnant.

The question now is how well Fannie Mae's and Freddie Mac's profitability has stood up to the bond-market crunch. The answer

will not be known for a while. In the meantime, some suspect that the hedging strategies used by Freddie and Fannie (and other large mortgage investors) may have actually worsened the storm in the debt markets. In essence, higher rates lead to a reduction in mortgage refinancing. This in turn means that the average duration of mortgages lengthens. So, to balance their portfolios, large mortgage investors have to sell long-term debt. As the supply of such debt goes up, its price falls—and its yield rises.

The speed of adjustment suggest that yields may have risen too quickly, says Anton Pil of J.P. Morgan Chase. If that is so, rates might next be heading down. This will please borrowers. It may catch the mortgage underwriters out again: last autumn just such a market move played havoc with Fannie Mae's accounts. Too bad that the mortgage companies cannot manage interest-rate risk as well as they manage Congress.



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Transferring euros across borders

Mind your BICs and IBANs

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From The Economist print edition

If you're European, and don't want your bank to rip you off

The banks take their cut

FOR over a month now European citizens—if they are smart enough—have been able to transfer euros between bank accounts in different European Union countries at domestic rates. In many cases, the price is zero. They can do this because of a new European regulation (number 2560/2001, should you care). Since July 1st, banks have been obliged to charge the same for cross-border and domestic euro payments of up to *euro*12,500 ($14,220). A survey for the European Commission found that a transfer of *euro*100 used to cost an average of *euro*17, and could cost *euro*43.

The number of transfers using the new rule is now running at about 30,000 a day, a tiny fraction of the total. Banks have not been eager to publicise the regulation, and in any case a technicality (there is always one) is allowing them to keep taking a healthy cut. To be granted the domestic rate, a customer must give his bank precise details of the beneficiary, including the bank identification code (BIC) and international bank account number (IBAN). Most banks now print this on account statements, but it is still up to the payer to obtain the details from the payee. If there is no BIC or IBAN, the bank can charge whatever it likes for “manual repair” to the order. Only about 1% of customers so far are getting this right, says Jean-Marie Avadian of Société Générale, a French bank.

Sooner or later, however, customers will presumably wake up to the code numbers. So Europe's banks, rather late in the day, are responding to the regulatory blow by trying to drive down their own costs for cross-border transfers. There is no pan-European system for low-value payments. In the past, small payments have gone, expensively, via a correspondent bank into the local automated clearing house (ACH) and thence to their destination. But the EU directive has pushed banks towards creating a single ACH for the euro zone.

The likeliest candidate, which has been going for a month, is Step 2, which is run by the Euro Banking Association, a Paris forum for the European payments industry. Alternatively Visa, a credit-card association, offers its member banks a small-payment service through its network, called Visa Direct. Europe's savings and co-operative banks also have cross-border payments networks.

But Step 2 will probably prevail, once enough banks have signed up to it. It uses a common computer language, XML, to reconcile anomalies between national payment systems. So far 31 banks are connected and 18 more will join in October. Step 2's members also act on behalf of other banks, so that 600 banks can already take advantage of the system. Although the cost savings sound impressive—up to 70%, estimates Linda Smith of HSBC, a British bank—the investment is hardly justified by banks' likely profits, because cross-border payments account for just 3.2% of all payments in the euro zone.

Hence the regulatory pressure. The thought of a single market for financial services with 15 incompatible national payment systems vexes Europe's visionaries. Why, they wonder, should the EU not be more like the United States, where citizens transfer money, make investments and buy goods electronically with nary a thought for state borders? Stephen Axelrod, a payments specialist at Microsoft, which is in the Step 2 consortium, believes cheaper low-value payments will take the single currency “beyond being a travel convenience”. Cheaper payments, he thinks, will change the way international companies organise their payrolls; it will also widen small investors' horizons and cut the cost of selling goods and services

across the euro zone. Fine. But first Europe needs better-informed bank customers.

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Jobs for economists

Unemployment forecast

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Plenty of American PhDs, but few jobs

"ECONOMICS", observed J.K. Galbraith, "is extremely useful as a form of employment for economists." In the United States, plenty hope so. Applications to the PhD programmes of many leading American universities have risen sharply: those at MIT were up by 15% for 2002-03; those for the coming academic year at New York University, which has energetically been recruiting star professors, are 70% higher than for 2000-01. Americans account for most of the increase, reversing a long-term decline in their interest.

It may be that economics PhDs, which take longer than MBAs, are a welcome shelter from the difficulties of the real economy. But for Americans now gaining doctorates, prospects are bleak. In 2002, the number of job openings for economists tallied by the American Economic Association (AEA) fell by 10%, the second decline running. Graduate-student membership of the AEA, a measure of the future supply of economists, rose by 14% (see chart). Robert Schwab, dean of the University of Maryland's economics department, says that last year was "very difficult" and that this year is expected to be "horrible".

A prime reason is that universities are short of money. Most economics PhDs go on to teach, yet states' spending cuts have choked off job opportunities: the University of California's income from the state is expected to be $248m lower in the year that began on July 1st than it was in 2002-03. Some are finding jobs at business schools, the World Bank, the International Monetary Fund or in government. Businesses take a few: Daniel Hamermesh, of the University of Texas, says that consultancies, under pressure to provide fancier technical analysis, have been hiring more PhDs in recent years. But now times are bad, demand has waned. Hiring by Wall Street banks has also dried up.

Across the Atlantic, it is a different story. In Britain, plenty of students are keen to study business, but economics is seen as something of a dead end, unless studied and practised in America. While doctoral programmes fill up with eager young things from France and Spain, there are few British students. Indeed, interest in undergraduate programmes has also sagged, even though attendance at university has soared. The number of A-level students (ie, in their final year at secondary school) studying economics fell from 40,000 in 1992 to 17,000 in 2002.

Nobody seems to want to be an economics professor in Britain now. Since the profession peaked in the 1960s and early 1970s, says Richard Portes of the Centre for Economic Policy Research, low salaries, worsening staff-student ratios and tiresome paperwork have turned talented Britons away from academia.

University-level research in economics has suffered especially, because of competition from both the government and the private sector. The Bank of England and Government Economic Services (GES) have been keen hirers in recent years. The number of economists employed by GES, mostly with masters or undergraduate degrees, has climbed from 530 to 810, thanks mainly to policymakers' increased appetite for analysis. GES cannot even fill all its places despite recruiting continental Europeans. On the continent, meanwhile, the European Central Bank has attracted plenty of eligible young economists. Maybe America's jobseeking PhDs should look across the Atlantic—assuming that Europe's labour market is open enough to admit them.

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About sponsorship

Brazilian banks

Better ways to go bust

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A new bankruptcy law may cut the cost of borrowing for Brazilians

"ARMED robbery." Thus fumed Brazil's planning minister recently about the interest rates the country's banks charge to some of their customers. When Brazil ponders the causes of its economic woes, as it does unceasingly, it often finds them in the banking system. Lending spreads are indecent—above 50 percentage points a year on personal loans, for example—and bank profits are plump by regional standards (see chart). Everyone but the government and a few favoured companies has a hard time borrowing: loans are a scant 25% of GDP. The banks are holding Brazil back.

One reason is outmoded bankruptcy laws, which treat creditors badly, making lending riskier than it need be and banks reluctant to lend. In Brazil's car-finance business, where lenders have no trouble repossessing the vehicles of delinquent borrowers, banks lent 1.7 billion *reais* ($580m) a month in 2002, notes Armando Castelar of the government-linked Institute of Applied Economic Research. They lent just 13m *reais* a month for housing, because repossession is almost impossible.

A proposal for bankruptcy reform, languishing for a decade, has been given new life by Brazil's left-leaning government, which took office in January. The lower house of Congress is expected to approve a new law next week (although a vote has been postponed a couple of times already) and the Senate should soon follow.

The new law's main virtue is that it supplants a system dominated by judges, who are often hostile to banks, with one that enfranchises creditors. Borrowers in distress will be able to negotiate restructurings with their creditors without going to court; if they still go bust, creditors will have first claim on any fresh money they put into the restructuring. Court-supervised restructurings will also be different: in most cases judges will have to accept decisions by creditors, whose votes are to be weighted according to the size of their exposure.

Liquidation, if it happens, will no longer be a death sentence for the company followed by a creditors' wake. Under the proposed law, administrators will first try to sell the bankrupt company as a going concern and, failing that, in pieces that preserve employment and intangible assets such as brands. Fire sales, which leave creditors with almost nothing, are to be a last resort. All this makes the reform a "significant advance", says Gabriel Jorge Ferreira, president of the Federation of Brazilian Banks. Bankruptcy procedures, which debtors prolong for years, should now be faster and leave more of value to lenders.

The banks are still grumbling, however, because secured creditors will continue to have only the third-ranked claim on a bankrupt company's assets, after employees and the taxman. The government wanted workers' claims to be capped but Congress has refused, leaving open a loophole that has let bosses of collapsing firms award their relatives enormous salaries. The government is mulling a concession on taxes: relieving buyers of bankrupt-company assets from having to pay tax bills. But the principle that the state comes first will remain.

Despite the improvement in creditors' rights, borrowing will not suddenly become cheap if the law is passed. The central bank is fighting inflation with a basic lending rate of 24.5% a year and tight reserve

requirements. Both are easing, but slowly. Brazil does a poor job of disseminating information about borrowers, which means that, to the banks, everyone is a potential bankrupt. Moreover, high taxes add two to three percentage points to the lending spread, estimates Paul Tucker, an analyst at Merrill Lynch.

Banks themselves deserve some of the blame for high spreads. They are inefficient by international standards, says Mr Tucker, and there may be too little competition among them. A study published recently by the International Monetary Fund found that Brazilian banks, the biggest of which are state-owned, “behave oligopolistically”. It will take more than bankruptcy reform to disarm them.

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Banking for Mexico's poor

Changing co-ops

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Less independence, but perhaps less fraud, for Mexico's social banks

Laughing all the way to the caja

THE Caja Popular José María Mercado helps to fill an important gap in Mexico's financial system. One of the country's 600 *cajas* (co-operative banks), it has almost 8,000 partners, or account holders, in and around Ahualulco, a village in the western state of Jalisco. In addition, 3,632 under-17s have accounts opened for them by their parents.

Although their country is both the world's tenth-biggest economy (at market exchange rates) and a member of the OECD, many Mexicans have little to do with banks. Charges are high and in rural areas bank branches are rare. The government estimates that only 37% of those in formal employment or seeking it use commercial banks; 35% have no contact with financial services. The social-banking system, mainly credit unions and *cajas*, serves about half of the rest. Some 3m people have accounts with *cajas*.

Ahualulco's *cajac* is successful and well run, and local people are obviously proud of it. There are no cheque books, automatic cash dispensers or overdrafts, but you need only 100 pesos ($10) to open an account. With 1,000 pesos to your name, you qualify for credit. Rigorberto Varo Ascencio, the head of the *caja*, explains that 65% of the account-holders are women, “because they are more responsible and have a better record of repaying loans.” The interest rate is 1.5% a month, less than at the village's only commercial bank.

Unfortunately, not all *cajas* are clean. Recent frauds, although few, have stained the *cajas*' reputation. In Jalisco two *cajas* have failed in the past four years. About 40,000 people lost money, much of which was reimbursed by the government. The people who set up the failed *cajas* are now in prison for fraud.

Now, the Mexican government is stepping in. Last year it set up a second-tier bank, the Bank of National Savings and Financial Services (Bansefi), to co-ordinate and develop the social-banking sector. All *cajas* are to be grouped into federations, to make regulation easier. Past regulation has been lax, a legacy of the sector's independent, co-operative traditions: it has been too easy, for example, to set up a *caja*. Bansefi will provide the *cajas* with professional training and technical help. Every *caja* is being put into one of four strata, according to assets, number of partners and so forth. The top level will offer credit cards, cheque books and other services.

Officials hope that the new system will give more Mexicans access to banking and credit, and so help the country's development. The idea, says the head of Bansefi, Javier Gavito, is to “strengthen the *cajas* and to do it at arm's length.” They will not, he insists, be financially dependent on the government. If more Mexicans are brought into the financial system, and if the *cajas* shed their whiff of corruption, then both *cajas* and customers will benefit.

The *cajas* first appeared in 1951, the idea of two brothers, both Catholic priests, who were inspired by a similar system in Quebec. The institutions were an idealistic, independent alternative to the commercial banks. One older partner in Ahualulco thinks some of this spirit might go once the *cajas* come under central control and the biggest offer much the same services as banks. As a member of a well-run *caja*, however, he has little to worry about. Less fortunate Mexicans may find the government's intervention reassuring.

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Economics focus

Chasing the dream

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Why don't rising incomes make everybody happier?

EVERYBODY loves a fat pay rise. Yet over the past half-century, as developed economies have got much richer, people do not seem to have become happier. Surveys suggest that, on average, people in America, Europe and Japan are no more pleased with their lot than in the 1950s. This is curious, because at any given time richer people say they are happier than poorer people do. For instance, 37% of the richest quarter of Americans claim to be “very happy”, compared with only 16% of the poorest quarter. That might lead you to expect that, as a country grows richer and incomes rise, rich and poor alike would become happier. However, they have not. Here lies a paradox: an individual who becomes richer becomes happier; but when society as a whole grows richer, nobody seems any more content.

In recent years the study of “happiness”—as opposed to more conventional economic measures, such as GDP per head—has attracted increased attention from economists. In a series of lectures* earlier this year, Richard Layard, an economics professor at the London School of Economics, reviewed the various evidence from psychology, sociology and his own discipline to try to solve this paradox. One explanation is “habituation”: people adjust quickly to changes in living standards. So although improvements make them happier for a while, the effect fades rapidly. For instance, 30 years ago central heating was considered a luxury; today it is viewed as essential.

Keeping ahead of the Joneses

A second and more important reason why more money does not automatically make everybody happier is that people tend to compare their lot with that of others. In one striking example, students at Harvard University were asked whether they would prefer (a) $50,000 a year while others got half that or (b) $100,000 a year while others got twice as much. A majority chose (a). They were happy with less, as long as they were better off than others. Other studies confirm that people are often more concerned about their income relative to others' than about their absolute income. Pleasure at your own pay rise can vanish when you learn that a colleague has been given a much bigger one. The implication of all this is that people's efforts to make themselves happier by working harder in order to earn and spend more are partly self-defeating: they may make more money, but because others do too, they do not get much happier. The unhappiness that one person's extra income can cause to others, argues Lord Layard, is a form of pollution.

Worse still, working harder in order to be able to afford more material goods could even end up making people unhappier if they do not have enough spare time. Although people value their income in relation to that of others, this does not seem to be true of their leisure time. The same Harvard students were also asked to choose between (c) two weeks' holiday, while others have only one week and (d) four weeks' holiday while others get eight. This time a clear majority preferred (d). In other words, people's rivalry over income does not extend to leisure. The result of this, suggests Lord Layard, is that developed societies may tend to work too hard in order to consume more material goods, and so consume too little leisure.

If governments' ultimate goal is to maximise the well-being (ie, “happiness”) of society as a whole, then, says Lord Layard, some highly controversial implications for public policy follow. Conventional economic theory argues that taxation distorts the choice between leisure and income. Taxes reduce the incentive to work an extra hour rather than go home, or to put in extra effort in the hope of promotion. But Lord Layard's argument implies that people have a tendency to work too much. Far from being distortionary, taxes are therefore desirable. He suggests a marginal tax rate of 30% to deal with the “pollution” that

one person's extra income inflicts on others, and the same again for habituation. The total of 60% is a typical European level of taxation (taking both direct and indirect taxes into account).

This flies in the face of what most economists think about high European taxes. In America, workers are allowed to keep more of the income from an extra hour's work. Many economists think that this is why Americans work longer hours than Europeans. Over the past two decades average annual working hours have increased slightly in America, but fallen sharply in Europe; continental Europeans now work, on average, 15% fewer hours than Americans do. High taxes, it is argued, have undermined Europe's competitive edge. Lord Layard's analysis suggests an alternative view: it is not that Europeans are working too little, but that Americans work too long, driven to choose more income instead of leisure by an urge to keep up with the Joneses. Higher taxes in Europe encourage workers to choose more leisure rather than work, and so keep this urge in check. America's economic performance is superior if judged by GDP alone. But GDP is a flawed measure of economic well-being. Happiness demands leisure as well as material consumption. Americans may be richer than Europeans, but are they any happier?

Seductive stuff, especially when read in August in a Tuscan villa or on a Mediterranean beach. Yet even if Lord Layard's theory is right, his figure for the optimal tax rate looks like little more than convenient guesswork. A lower number might be just as good. And Europe's high taxes still have negative effects. They put some people off working altogether, and discourage employers from offering extra jobs. As Lord Layard himself says, unemployment visits terrible unhappiness on those it afflicts. Yet this is not to deny his main point: the pursuit of material comforts does not always lead to happiness.

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* “Happiness—Has Social Science a Clue?” Lionel Robbins Memorial Lectures 2003, Centre for Economic Performance, London School of Economics.

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Aeroplane technology

Wings of desire

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AP

New technology may change how people fly

FOR a week, in the last days of July and the first few of August, the world's busiest airport was not in New York, nor Frankfurt, nor London, but rather in the midst of the dairy farming countryside of Oshkosh, Wisconsin. A special team of air-traffic controllers was drawn from America's largest airports to handle the comings and goings of the roughly 10,000 aircraft that gathered here for the 51st annual fly-in meeting of the Experimental Aircraft Association (EAA). Contrary to the name, most of these planes were not, in fact, experimental. Rather, they included the humble, workaday aircraft that ferried visitors from across America to the site, and also a vast assortment of restored vintage planes that entertained the 750,000 spectators with daily shows. However, there remained dozens of aeroplanes that are truly experimental. These ranged from a business jet that looks like a fighter plane, to sealing-wax-and-string home-made affairs.

The *Javelin*, as the business/fighter jet is called, is built by the Aviation Technology Group of Englewood, Colorado. According to the firm, one in five executive jet flights carries only a single passenger, so the fact that *Javelin* has only one seat apart from the pilot's is not a problem. The speed and manoeuvrability that come with the aggressive design of the jet are stylish perks for rich clients who favour a James Bond image.

Indeed, many of the aircraft on display at the EAA look straight out of one Bond movie or another. Because of a regulatory quirk, it is easier to get both craft and pilot certified if the pilot builds the aeroplane himself: hence the popularity of DIY aircraft kits at Oshkosh. Some have wings that sweep jauntily forwards, with canards to give them stability (these are small fins that look as though the tail is in the front of an aircraft). Others have propellers that push rather than pull (which is actually a slightly more efficient arrangement). Endless lines of such craft sit alongside the runway, tended by pilots who are eager to show off their handiwork.

Up, up and away

But the EAA is a place where the big boys can show off, too. And few are bigger than NASA. Though this

agency is best known for running America's space programme, its full title is the National Aeronautics and Space Administration, and the EAA gives full rein to the first “A” in the acronym. This year's star turn was provided by a team based at the agency's Dryden flight research centre in Edwards, California. It is the first aircraft in modern times to be designed with deliberately flexible wings.

The first aeroplane of all, built by the Wright brothers 100 years ago, had flexible wings, too. By moving his torso, the pilot could warp these wings with an elaborate system of wires. That caused the aircraft to turn. Unfortunately, it also made the plane unstable—a fact your correspondent can verify, having flown a mock-up simulation of the Wright brothers' craft at the meeting. The result was that subsequent designers sought to make wings as rigid as possible, with only a small segment, called an aileron, moving up and down to control the aeroplane's roll.

This, though, is a less-than-efficient solution for two reasons. First, a rigid wing is necessarily heavier than a flexible one, because of the struts required to stiffen it. That means the aeroplane uses more fuel than it otherwise would. Second, the small control surface provided by the aileron has a worse performance than would a fully flexible wing. But NASA believes that computational advances now make it possible to design aeroplanes with flexible wings that are more flyable than the Wright brothers' contraption. To prove it, the team from Dryden modified the wings of an F-18 fighter to make them less stiff. Small manipulations of the leading edge of the wing then make the whole thing flex—a so-called “aeroelastic wing”.

This design, said Dick Ewers, one of the pilots who is testing the craft, is intended only to verify computational models that NASA has made of flexible wings. The first round of testing, consisting of simple rolls that Mr Ewers described as stomach-wrenching for the pilot, was completed a few weeks ago. More elaborate tests are planned over the next few months.

So far, the flight tests have agreed with the computer's predictions. This, says Denis Bessette, who recently retired as director of the programme, should help the design of future aircraft whose wings will twist by more than the 2-3° that the aeroelastic F-18's do. Furthermore, the next ten years may see the development of wings that flex not just from aerodynamic forces without, but from piezoelectric elements within. Piezoelectric materials are those that change shape when an electric current is passed through them. They could thus be used to warp a wing from inside. Prototypes are currently being developed at NASA's Langley centre, in Virginia. In the long run, Mr Bessette says, they may lead to aircraft that resemble birds in their aerodynamic efficiency.

Those magnificent men

Even if NASA has taken much of the glory from lone inventors today, it is still possible for such inventors to make substantial steps in aviation. This was the original impetus behind the EAA, and the spirit is still alive. One such innovator is Attila Melkuti, who is chasing the elusive goal of vertical take-off and landing (VTOL).

Helicopters, of course, take off and land vertically. But because the main direction of their thrust is upward, even the most sophisticated choppers have limited range and forward speed. That is why engineers have been trying for decades to design aircraft that can push (or pull) themselves forward as well as up and down.

So far, the successes have been outnumbered by the failures. Helicopters aside, the Harrier jump-jet, a British military aircraft, is the only real winner. But it is noisy and expensive to operate, and so has no applications beyond the role for which it was originally designed. If a cheap, quiet VTOL aircraft could be made, it would have many civilian applications. Indeed, such a craft would have the potential to transform aviation, shrinking the size of regional airports by allowing runways to be replaced with landing pads.

That is a long way off. Indeed, Mr Melkuti's prototype has not yet flown. It is scheduled to have its first test flight in the next few weeks. But Mr Melkuti has eliminated one of the main elements that have plagued previous VTOL aircraft—the need to swivel the engines (or the thrust-producing exhaust from them) so that they go from providing lift to providing forward thrust. It was a failure to manage this transition that nearly ended America's V-22 Osprey programme, which is designed to produce a transport VTOL whose wing propellers will rotate through 90°.

Mr Melkuti has solved the problem by having the whole aircraft turn instead. He does this by using a

propulsion system called a ducted fan. This is a propeller with five blades that is encircled by a band made of a light, composite material. That makes the aircraft both safer (because there are no stray propeller blades around) and quieter (because the sound is deadened by the encircling band).

What is novel about Mr Melkuti's design, though, is that the aircraft's wings are placed at an angle to the fan. And besides the wings, the fuselage itself provides aerodynamic lift. The craft takes off with the fan perfectly horizontal, blowing straight down. As the craft then rotates, the wings start providing lift, and the fan starts blowing towards the back. To land, you simply reverse the process.

Many observers at the meeting were concerned about the stability of Mr Melkuti's craft. He claims to have solved the stability problem with a system of louvres that guide the fan's exhaust. He also says that the craft should be able to glide to a landing if the power fails.

If he himself fails, it would not be the first time that VTOL prototypes fell short of their promise. If he succeeds, he could become a very rich man. Either way, he embodies the spirit of innovation in aviation that suffuses this Wisconsin prairie.

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Ultralight aircraft

Home on the range

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Ultralight aeroplanes are of increasing use in ecological monitoring

AT THE far end of the thousands of aircraft dotting the side of the runway at Oshkosh lie the ultralight and microlight aeroplanes. Often consisting of little more than an engine bolted beneath a wing with a chair hanging below, they have long been beloved by hobbyists as the purest form of flight. But, says Rob Hibberd of AirBorne, an ultralight manufacturer in Redhead, Australia, the appeal of ultralights is now spreading. Because they are so cheap (a typical model costs less than $20,000), they are being snapped up by ecological monitors and conservationists. They cost less than a third as much to operate as conventional aircraft, and are many times cheaper to buy.

But cost is not the only advantage. Unlike helicopters and conventional aircraft, they are easily portable. A disassembled ultralight can be carried on a pick-up truck, as the wings are often made of fabric and so can be folded. They are also much more rugged. Their simplicity makes them both sturdier and easier to repair. Ultralights' slow flight speeds, and the short distance they need to take off and land, means that they can get close to animals.

This, Mr Hibberd says, is allowing biologists and wildlife managers to develop new methods of studying their subjects. Conventional aircraft allowed them to go out and monitor animals fitted with radio-transmitting collars only once or twice a week. Now, they can go every day. The unobstructed view from an ultralight's cockpit allows scientists to mount cameras pointing in all directions, to track the migration of animals as well as to monitor vegetation.

AirBorne's “trikes”, as they are called because of the three-wheeled landing gear, are now being used to follow elephants in the Sahel, at the edge of the Sahara in Mali. This is one of the few remaining viable populations of elephants in West Africa, and the northernmost group of elephants in all of Africa. Ultralights, says AirBorne, are vital for the preservation of the population. Other examples that Mr Hibberd cites are the use of ultralights in Nigeria and Ghana to patrol national parks in an attempt to stop poaching. Ultralight aircraft, it seems, are beginning to have a heavy impact.

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South Africa and AIDS

Death by dithering

Aug 7th 2003 | JOHANNESBURG
From The Economist print edition

A health tragedy compounded by government farce

Get article background

THE scientists, politicians, activists and doctors who met in Durban this week to discuss South Africa's awful AIDS epidemic had nothing to cheer. Nearly 5m of the country's 45m people have HIV, the virus that causes the disease, and its impact worsens each day. One delegate lamented that the country is already in the “death phase” of the epidemic, with more people dying from AIDS than are catching it.

Not that new infection rates are dropping. Rather, death rates are rocketing. Statistics are contentious because AIDS is not a notifiable disease, so doctors need not record it as a cause of death. But many researchers say AIDS is easily the top killer of South Africans, accounting for 30% of deaths. Life expectancy at birth has plummeted from 62 years in 1994 to 51 years now. Perhaps 600 people die each day.

Yet the government will not agree on a plan to distribute drugs which prolong lives and help prevent further infection. It has postponed a decision for months, despite estimates by civil servants that such drugs would save hundreds of thousands of lives and that ample money is available. Rumours flew at the Durban conference that a cabinet decision is imminent. But frustrated senior civil servants say that “the political will is not yet there”, meaning that Thabo Mbeki, the country's president, and Manto Tshabalala-Msimang, its health minister, are still unconvinced.

What will persuade them that the drugs should be used now in state hospitals? Not money, clearly. An offer of a $165m grant from the Global Fund, an international body set up to combat AIDS (and also tuberculosis and malaria) is due to expire in three months' time because the health minister will not accept it. Mrs Tshabalala-Msimang refuses to let foreign money go directly to provinces, such as KwaZulu-Natal, where anti-AIDS drugs are already widely distributed. Although the top civil servant in the health ministry said on August 5th that the deal will be signed later this week, such hopes have fizzled before. In any case, according to the government, many hospitals are not ready. One study presented in Durban this week suggested only 40% of South Africa's health staff are trained to avoid HIV infection. Just 59% of hospitals and clinics can conduct their own HIV tests.

Political pressure is also proving ineffective. AIDS activists who sat in talks with the government earlier this year are ready to withdraw. Zackie Achmat of the Treatment Action Campaign has abandoned a personal boycott of the drugs, fearing that he would die before the government shifts ground. Instead, the group has relaunched a campaign of civil disobedience. Mrs Tshabalala-Msimang was widely jeered in Durban. The country's main trade-union confederation, Cosatu, which represents 1.7m workers, hints that it may join in. The biggest predominantly black newspaper, the *Sowetan*, this week launched its first attack on the government's AIDS policy.

Such activity may force change eventually, but some worry that progress already made is being undermined. This week the official opposition party, the Democratic Alliance, said that the government is weakening an earlier pledge to give anti-AIDS drugs to rape victims, after a new bill on sexual offences was rewritten to exclude the right to treatment. Even a ruling made last year by the Constitutional Court—that Nevirapine, a drug which helps stop the infection of newborn babies, must be distributed—could be in jeopardy. The Medicines Control Council (an independent body) says Nevirapine has not been registered properly and could be withdrawn by the end of October. Its manufacturer, Boehringer Ingelheim, must now show it is safe and effective, despite recent reassurances from the World Health Organisation that it can be used.

Effective dialogue is in short supply. Mr Mbeki stayed away from the Durban meeting, and Mrs Tshabalala-Msimang flew in only for the opening and closing ceremonies. But there is one reason why even the most committed ditherers will have to act: the death rates are fast becoming too awful for anybody to ignore.

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The Robostrider

Striding ahead

Aug 7th 2003
From The Economist print edition

A robot that walks on water

WATER STRIDERS are insects that can perform amazing feats of dexterity on water. They perch on the surfaces of ponds and slow streams as if on solid ground. And, as their name suggests, they can skim blithely across the water's surface, just like surfers on a wave.

Not to be outdone by these humble creatures, John Bush and his colleagues at the Massachusetts Institute of Technology have tried to create a mechanical device that can do the same. The result is the Robostrider, a 9cm-long replica that looks remarkably like the real thing (although it is about nine times longer). It is fashioned out of aluminium and steel-wire, and powered by an elastic thread and pulley. Like a real water strider, the Robostrider relies on the surface-tension properties of water to stay afloat.

Big Daddy

How it moves, though, is a different issue. For years, scientists have argued that water striders propel themselves by creating surface waves that carry momentum backwards. Newton's third law (that for every action there is an equal and opposite reaction) then carries them forwards. This idea works for adult water striders. To generate suitable waves, an insect leg must move faster than about 25cm a second, which is the minimum speed of a surface wave. Exceeding this speed is not a problem for water striders with long legs. But if it were the whole story, then baby water striders, with much shorter legs, should be immobile on water—yet they skim along as easily as adults.

This conundrum, known as Denny's paradox after the scientist who first noticed it, has puzzled researchers for almost a decade. Dr Bush and his colleagues believe they have found the answer. As they explain in a paper published in this week's *Nature*, water striders typically stroke the water with their middle legs a couple of times each second. High-definition pictures captured on video cameras reveal that each stroke produces a pair of vortices beneath the water's surface. It is these vortices, which move backwards in the wake of the insect, that are responsible for driving both adult and baby striders forward.

Like its inspiration, the Robostrider depends primarily on vortices for thrust, although it creates both vortices and surface waves in its wake. The researchers say that it can achieve speeds of about 30cm a second. Not bad, though real water striders have peak speeds of about one metre a second. And the Robostrider, they concede, moves less elegantly than its natural counterpart. Walking on water is impressive and not as easy as it seems.

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Saudi Arabia

Riddle of the sands

Aug 7th 2003
From The Economist print edition

Corbis

New thinking about the politics and economics of the desert kingdom

Get article background

OF THE 19 September 11th hijackers, 15 came from Saudi Arabia, a reliable if wily ally of America and the West. That a handful of men from a country never seen before on a State Department watchlist could so deeply, and so easily, humble the reigning superpower calls for a thorough re-examination of our understanding of the desert kingdom. In the past two years, numerous books have been published in an effort to put the carnage into some sort of geopolitical, social and religious context. Most of them emphasise the inevitable collision between Islam and the West—the tired conservative argument—or America's sinful arrogance that has fed Muslim animosity, an infuriating argument preferred by many leftists.

Refreshingly, three recent books steer a different course. Robert Baer, a former CIA field operative, dispenses with a wordy history of the kingdom and focuses instead on the back-alley dealings between Riyadh and Washington, which have elevated greed over security.

His rat-a-tat prose suggests a book that belongs more comfortably in an airport bookshop rather than on the desk of a serious analyst, and his discussion of the petroleum industry is amateurish. But his main point deserves to be remembered: the rivers of money flowing from Saudi coffers—both private and public—to both Democrats and Republicans have made any honest dealings with the kingdom well nigh impossible. Mr Baer is at his best when detailing the $23m donation made by King Fahd to the University of Arkansas in late 1992 as a gesture of respect to Bill Clinton, the Arkansas governor who had just been elected president, and the rest of the hush money that has been paid to retiring Washington insiders to persuade them to remain mute about the kingdom's dirtier secrets.

Anthony Cordesman, a military and political analyst, steers clear of hyperbole in

Sleeping With the Devil: How Washington Sold Our Soul for Saudi Crude
By Robert Baer

Crown; 256 pages; $24.95

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Saudi Arabia Enters the Twenty First Century
By Anthony H. Cordesman

his comprehensive account of politics, economics, security and energy in the kingdom. “Saudi Arabia Enters the Twenty First Century” is anything but light reading. Its tone is measured and its texture academic. Its policy recommendation will be familiar to anyone who follows the kingdom. He offers no strikingly new approaches to dealing with Saudi Arabia's political, economic or social problems.

For instance, he adheres to the standard policy prescriptions for the kingdom: reduce reliance on oil and develop the services and manufacturing sectors to overcome the vicissitudes of oil prices, which always wreak havoc on budgetary planning; and include more public participation in decision-making processes (though he says that on some level, traditional consultation does a mediocre job of addressing this now).

Yet, in many ways, his quiet approach is the book's strength. For more than two decades, there has been a chorus of voices in the West and in the Arab world announcing the imminent fall of the House of Saud, a prediction of obvious exaggeration.

To the outsider, the conservative Saudi monarchy appears as lumbering as the tankers leaving its shores. But Mr Cordesman argues that the decision-making process preferred by the kingdom's unelected leaders is methodical in its emphasis on consensus and a natural part of the country's traditions that are based on culture and religion. This point he argues adroitly enough. But in choosing to avoid any overt criticism of the House of Saud, Mr Cordesman also fails to account adequately for the possibility of rebellion against the ruling elite and what might follow.

Praeger Publishers; 1048 pages; $115.00 and £74.50

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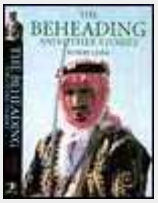
The Beheading and Other True Stories: The Shocking Investigation into the Barbarism of Modern-Day Saudi Arabia
By Bob Crew



Metro Publishing; 278 pages; £16.99

Buy it at
Amazon.co.uk

Otherwise there is little the author has neglected. When examining historical events to clarify the present, Mr Cordesman does so clearly and succinctly. There are fine discussions as well on external security, such as the touch-and-go relations with Saudi Arabia's destitute southern neighbour, Yemen, and palace intrigue with Qatar. Discourses on Iranian military capabilities in the Gulf are detailed and balanced, but recent events have made obsolete the strategic study of Iraq. However, given the vaunted depth of this work, it suffers from poor editing. In numerous cases, lapses go beyond the mere grammatical; some dates are decades off and in one instance a country attacks itself.

Bob Crew's account of Saudi Arabia proves yet again that while oil made Saudi Arabia rich, it is the stonings, lashings and beheadings that have made it infamous. In “The Beheading and Other True Stories”, the London *Times'*correspondent is harshly critical of what he regards as the kingdom's mindset as well as the cultural relativists that explain away its barbarities.

In one chapter, “Women are Always to Blame”, Mr Crew describes a scene in which an accused adulteress is being stoned to death by her fellow townspeople who believe the woman deserved her treatment. Horror and humour are juxtaposed throughout; the author's account of smuggling hardboiled eggs into his office during Ramadan and surreptitiously swallowing them in front of the fasting believers is as funny as it is revealing of the differences between their culture and the West's.

Sleeping With the Devil: How Washington Sold Our Soul for Saudi Crude.
By Robert Baer.
Crown; 256 pages; $24.95

Saudi Arabia Enters the Twenty First Century.
By Anthony H. Cordesman.
Praeger Publishers; 1048 pages in two volumes; $115.00 and £74.50

The Beheading and Other True Stories: The Shocking Investigation into the Barbarism of Modern-Day Saudi Arabia.
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About sponsorship

American power

Good intentions

Aug 7th 2003
From The Economist print edition

SINCE the Bush administration took power in January 2001 and even more since September 11th of the same year, the stale arguments of the cold war have been replaced by a passionate international debate about the political uses and limitations of American power. Triumphant and triumphalist conservative and neo-conservative voices have welcomed victory in Afghanistan and Iraq as evidence that the United States can do whatever it wants. Sceptics in America and elsewhere, however, question whether the United States actually knows what it wants to do. Even that super-realist, Henry Kissinger, has asked whether Americans have the stamina to achieve what lies in their power.

Now two thoughtful books, both written for the general reader by American writers, tackle the dilemmas of American power from different perspectives.

If he were not a former corporate executive who was one of President Reagan's trade negotiators, it would be easy to typecast Clyde Prestowitz, the president of the Economic Strategy Institute in Washington, as a liberal, even as a “cheese-eating surrender monkey”, as French intellectuals were so memorably described. In fact Mr Prestowitz's book deserves to be read even by those who utterly reject his thesis for its courage, its clarity and its attempt to see the United States as all too many others see it.

Mr Prestowitz believes that the United States has practised for decades an anti-imperialist imperialism. He quotes with approval a scholar who concluded that “the United States has compromised or acted to undermine in some crucial way every treaty we have studied”, and shows that since the coming of the Bush administration America has done just that in relation to landmines, small-arms sales, nuclear proliferation, torture, the international criminal court—even, he says, the rights of children.

He highlights every incident in history that appears to contradict American values, from the installation of anti-communist dictators in a dozen countries during the cold war to what he sees as the economic militarism of the military-industrial complex.

He reminds us that the United States tacitly accepted the Taliban's assumption of power in Afghanistan, tells us that it supplied him with anthrax and botulin, and unkindly notes that it was one Donald Rumsfeld who went to Baghdad in 1983 to assure Saddam Hussein of American support. Bravely, Mr Prestowitz analyses the hostages to fortune given by American policy towards both Israel and Taiwan.

He believes American power has become dangerous “because it has been accompanied by a fundamental shift in US doctrine that increasingly makes American power ‘unsafe' in the eyes of the world.” Nor does he criticise the Bush administration alone. On the contrary, he blames the whole thrust of American exceptionalism. “We are a well-intentioned people”, he concludes, “who have been blessed by fortune. We have an admirable democracy, but it is not the only possible democracy and not always the best possible democracy. We have a very successful economy, but so do others.”

Elsewhere, this may be seen as refreshing and wise. But while many in the rest of the world (and indeed

Rogue Nation: American Unilateralism and the Failure of Good Intentions
By Clyde Prestowitz

Basic Books; 336 pages; $26 and £16.99

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At War with Ourselves: Why America Is Squandering its Chance to Build a Better World
By Michael Hirsh

Oxford University Press; 302 pages; $26 and £16.99

Buy it at
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Amazon.co.uk

some Americans) agree with Mr Prestowitz, most of those who now control American power, in the executive branch, but also in the Congress, the military, the think-tanks and the corporate hierarchies, will think it offensive, if not raving mad.

Michael Hirsh's book is very different. Mr Hirsh is a *Newsweek* reporter, and although he has travelled widely, his perspective is a Washington one. He is better at describing how the world looks from Washington than at understanding how Washington looks to the world. Even so, Mr Hirsh understands the limitations of the widespread American assumption that the United States “can make the world a better and safer place by asserting America's power and spreading cardinal American values such as democracy and free markets.” Mr Hirsh believes that this effort is likely to fail. The world, he says, “has already heard an earful from America”.

Instead he argues that “We have no choice but to strike a middle course between the soft globalism that the Bush hegemonists despised and the take-it-or-leave-it unilateralism they offered up as an alternative.” He puts forward a strong argument in favour of the notion that Americans, with a little help from their friends, have already gone a long way towards creating that integrated international society whose existence the arch-realist Hans Morgenthau denied.

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About sponsorship

Philosophy of science

The myth of structure

Aug 7th 2003
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OH BOY, is science important. This is one half of the premise of Steve Fuller's new book, “Kuhn vs Popper”. And as premises go, it is a pretty easy one to defend. After all, technology, which stems from science, is the major reason we now live so differently from our ancestors of 100, or even 50 years ago. The other half of Mr Fuller's premise—the claim that the philosophy, history and sociology of science are also important—is not so self-evident. Nonetheless, his book frames a variety of important questions—about just how far scientists should shoulder responsibility for their ideas and about the role of the university in modern life—and it does it very well.

Kuhn vs Popper: The Struggle for the Soul of Science
By Steve Fuller

Icon Books; 224 pages; £9.99

Buy it at Amazon.co.uk

As the title suggests, the book concerns a debate between Thomas Kuhn and Karl Popper. Kuhn was a philosopher of science known for his 1962 book, “The Structure of Scientific Revolutions”, in which he came up with the concept of a “paradigm”—the idea that the bulk of science goes on in a given framework for arbitrary historical reasons until too many problems arise and a revolution, or paradigm shift, occurs. Popper, another philosopher of science, is best remembered for his doctrine of “falsifiability”—the contention that science, by definition, is a project that tests hypotheses that could conceivably be proved false.

The title refers to a debate that took place in London, in 1965, when Imre Lakatos, a colleague of Popper at the London School of Economics, organised a session, chaired by Popper, at which Kuhn spoke. Although Mr Fuller uses the debate to consider the role of science in the world and the relationship between scientists and those who study them, he gives the debate itself short shrift. Unless one has already read the papers that emerged from the debate Mr Fuller does not successfully convey exactly what happened. Because he believes the outcome of the debate, which Kuhn won, to be of vital importance, this is more than a little bit frustrating.

Mr Fuller admits that Kuhn's opinions have triumphed in the court of intellectual public opinion; he is frequently mentioned as one of the most-cited academic authors of the 20th century. Yet the author, a professor of sociology at the University of Warwick, still contends that Kuhn's conception of paradigms does not, in fact, reflect the way that scientists work, or should work, and that Popper's writings are both a better description of the scientific endeavour and a better prescription for how their ambitions should be framed.

Mr Fuller's book begs comparison with another recent chronicle of a debate that Popper lost, “Wittgenstein's Poker”, which is an account of an informal argument Popper had with Ludwig Wittgenstein about the nature of philosophical problems. Mr Fuller's book is devoid of colour and biographical anecdote.

It is perhaps admirable that Mr Fuller has clearly set out not to entertain but to exhort. If his book is lacking in urbanity, that is because it is what should properly be called a tract. Mr Fuller believes that Kuhn, despite the appropriation of him by post-modern theorists of science, has had a reactionary effect on science itself.

The book whirls through the intellectual milieu of modern philosophy and science with an assumption that the reader is as erudite as Mr Fuller. His book is too hurried to be an end in itself, and not thorough enough to convince sceptics of his point of view. His cursory treatment of Heidegger will not sway anyone who disagrees with his interpretation of the legendarily dense philosopher. However, his contrarian approach to Kuhn is certainly interesting, and his defence of Popper touching. If he could have wheeled a bit less freely from Aristotle to Adorno, the book might have been essential reading. As it is, it is merely

interesting.

Kuhn vs Popper: The Struggle for the Soul of Science.
By Steve Fuller.
Icon Books; 224 pages; £9.99

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Uzbekistan

An American abroad

Aug 7th 2003
From The Economist print edition

An American in Uzbekistan

“LIKE medicine or pornography”, says Tom Bissell, “Uzbekistan is a subject in which a person is either deeply versed or utterly ignorant.” In the mid-1990s, Mr Bissell taught English as a Peace Corps volunteer in Uzbekistan. He left after seven months, physically broken and having lost his mind. A few years later, still haunted by the country and the feeling of failure, he returned to Uzbekistan to write an article about the disappearance of the Aral Sea.

His visit, however, ended up involving a lot more than that. Hence this book, which recounts a road trip from Tashkent and Samarkand to Bukhara, Ferghana and finally Karakalpakistan, the semi-autonomous province where millions of lives have been devastated by the slow drying up of the sea. It is the story of an American travelling to a strange land, and of the people he meets on his way: Rustam, his translator, an endearing 24-year-old who picked up his colourful English in California, Oleg and Natasha, his hosts in Tashkent, his Peace Corps Uzbek family, and a string of foreign aid workers.

This is a glimpse of life in Uzbekistan, made of hospitality and warmth, but also its darker side of pervasive corruption, poverty and brutal security forces. In Samarkand, Mr Bissell marvels at the architectural wonders, while on his way to Bukhara he gets a taste of police methods when suspected of drug trafficking. In Ferghana, he attends a mountain funeral followed by a surreal drinking binge. And in Karakalpakistan the desolation of dust storms, rampant tuberculosis and fishing boats stranded miles from the sea, is poignant.

Mr Bissell seamlessly weaves in historical insights and cultural references, making his tale a well-rounded snapshot of Uzbekistan, seen from western eyes. His measuring scale and references are decidedly American, as well as his fragile stomach. As the author explains, this is neither a travel nor a history book, or even a piece of reportage or a memoir. Whatever the genre, the result is a fine and elaborate mosaic in the purest of Central Asian traditions.

Chasing the Sea: Lost Among the Ghosts of Empire in Central Asia.
By Tom Bissell.
Pantheon; 416 pages; $24.95

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Buddy Cianci

Never say never again

Aug 7th 2003
From The Economist print edition

AMERICA has had its share of colourful, criminal mayors, from Marion Barry, who was re-elected mayor of Washington, DC, after being caught in a hotel room with a prostitute and crack pipe, to the crooked and kinky city leaders in New Jersey and Connecticut. But even Mr Barry cannot hold a candle to the corruption and celebration that characterised the two decades that Vincent A. “Buddy” Cianci junior was mayor of Providence, Rhode Island, which ended with him being indicted in April 2001 on federal charges of racketeering, conspiracy, extortion, witness tampering and mail fraud.

Buddy, as he is known by all, was the hard-working hand pumper behind the renaissance of Rhode Island's capital from a forgotten industrial centre to a vibrant cultural city. He was the longest-serving mayor in the United States of any city of more than 100,000 people and was immensely popular—but Buddy had a split personality.

Despite his distaste for the popular television series, “The Sopranos”, because of the way it portrayed his fellow Italian-Americans, Mr Cianci's own life not only echoed but exaggerated many of the shadier stereotypes he found offensive. True, he was never associated with a murder, but he was accused of raping a woman at gunpoint while he was in law school and was forced to resign in 1984 after pleading no contest to assaulting a man with a burning log and lit cigarette. During his first tenure as mayor, 22 people associated with his administration were convicted of corruption. And that was just a warm-up for his comeback in 1990.

In “The Prince of Providence”, Mike Stanton, a Pulitzer-prize-winning journalist, describes a city where promises and pay-offs are traditional. Mr Stanton wryly lays out a complicated soap opera of mobsters, FBI agents, the mayor's inner circle, his family, and Buddy. The result is both riveting and repulsive. Buddy was good at campaigning, and after reading Mr Stanton's account it is just possible to envisage him back in the public eye. The people of Rhode Island's capital are unbelievably forgiving, and Mr Cianci certainly had personality, if no providence.

The Prince of Providence: The True Story of Buddy Cianci, America's Most Notorious Mayor, Some Wiseguys, and the Feds.
By Mike Stanton.
Random House; 464 pages; $25.95

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Francis Alys

Silly walks, serious concerns

Aug 7th 2003
From The Economist print edition

The absurdist art of a Belgian-born, Mexico-based artist

Moving a mountain

FRANCIS ALYS is a peripatetic artist. Born in Antwerp in 1959, he moved to Mexico in the late 1980s, and though he has remained there ever since, he has not kept still. Trained as an engineer and an architect, Mr Alys is interested in how people move through cities, and he often makes art based on imaginative urban walks, his own or other people's. Although these peregrinations leave nothing behind besides the films and photographs that document them, they reveal Mr Alys's ambition to make art that is ephemeral in the same way that a gesture can be, and which combines a surreal sensibility with socio-political concerns.

Mr Alys's walks have the quality of fables, or jokes, in real settings. He once walked out of a gallery in São Paulo carrying a punctured tin of paint, lost himself in the city's myriad alleyways and found his way back by following the drops of paint. At the Venice Biennale in 1999, he entered Venice from one end of the city holding half a tuba, while someone else started from the other end carrying the other half of the instrument. After several days, they found each other, put the tuba back together and played a single note.

In his most ambitious work so far, Mr Alys invited 500 volunteers to join him at the base of a mountain of sand in the shantytowns around Lima, Peru. He equipped them with shovels, and under the midday sun asked them to walk around the mountain and dig together to move it by 10cm. They did, or at least believed they did, which is just as important to the artist. The miracle, for Mr Alys, lay less in the moving of the mountain as in the social act of faith that his work of art inspired.

“When Faith Moves Mountains”, organised for the Lima Bienal in April 2002, was Mr Alys's attempt to introduce what he calls a “metaphor of hope, a beau geste, at once futile and heroic, absurd and urgent” into the political crisis that had overwhelmed Peru at the time. The work existed not just in its physical enactment—which lasted about four hours—but later as an urban myth.

Mr Alys is a rising star in contemporary art. The first exhibition of the film and the documents associated with his Lima piece are part of the inaugural show of the new Rosenthal Centre for Contemporary Art in Cincinnati, a striking new building designed by Zaha Hadid. Meanwhile, a show of his paintings and drawings is at the Reina Sofia museum in Madrid, and an artist's book, co-written with the curator, Catherine Lampert, has been published to coincide with it.

The absurdist quality in Mr Alys's pedestrian performances owes something to the artist's Belgian surrealist forebears. But he finds most of his inspiration in the chaos of daily life in Mexico City, where poverty and religion, contemporary politics and indigenous traditions intermingle so easily.

Mr Alys is part of a group of young Mexican artists who have come to international prominence since the mid-1990s. All of them, in different ways, take extreme urban situations as their subject. Mr Alys has recently made a video installation called “Politics of Rehearsal” with Alejandro Gonzalez Innaritu, the director of a hit Mexican film, “Amores Perros”, in which he created a montage of film cuts, rehearsals and casting. The work's stuttering effect, caused by the build-up of video passages, is, says the artist, “metaphorically reminiscent of Mexico's ambiguous affair with modernity”, forever imminent yet never quite happening.

Usually, however, Mr Alys's work has a more playful, fairytale quality. His devotional-sized, pastel-toned paintings contain cartoon-like images that look like a cross between “Tintin” and “Le Petit Prince”, as though the characters from these children's books have somehow lost their way and are tripping awkwardly through the world. A self-taught artist, Mr Alys learned his simplistic pictorial style from the *rotulistas*, the traditional sign painters that are so common in Mexico.

Like Mr Alys on his walks, the figures in his paintings seem to be wandering alone, constantly in search of someone or something. He is fascinated by Plato's “Symposium” in which Aristophanes cites the definition of love as finding one's other half. For Mr Alys, Plato's complex story can serve as a metaphor for art; it reflects the contradictory urges, split selves, conflicting ideas and images that permeate our lives. The creative search may be endless, but in those rare moments when the artist finds what he is seeking, art can have the same power as love.

“Francis Alys: El Profeta y la Mosca. Obra Pictórica 1992-2003” is at the Museo Nacional Centro de Arte Reina Sofia until August 18th.

“Somewhere Better Than This Place: Alternative Social Experience in the Spaces of Contemporary Art” is at the Rosenthal Centre for Contemporary Art, Cincinnati, Ohio, until November 9th.

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Foday Sankoh

Aug 7th 2003
From The Economist print edition

AP

Foday Saybana Sankoh, an African revolutionary, died on July 29th, aged 65

Get article background

“A GREAT man who cared for his people and country.” That was how his widow described Foday Sankoh, but it is hard to find anyone else with a kind word for him. He was not Africa's most prolific murderer, but he was one of the cruellest. Between 50,000 and 200,000 people died in the ten-year civil war he started in Sierra Leone in 1991. But it was not the number that outsiders found most shocking; it was the way Mr Sankoh's killers killed.

A career as one of his footsoldiers sometimes began with the new recruit being forced to murder his own parents. Besides inuring them to barbarity, this made it hard for them ever to return home. Mr Sankoh had thousands of boys and girls abducted to join his Revolutionary United Front (RUF) as fighters or concubines. New guerrillas sometimes had the initials “RUF” carved into their chests, as if they were Mr Sankoh's property. Before battle, teenage officers would cut their subordinates' young faces and rub in cocaine to make them fearless. Deprived of a childhood and raised amid horror, Mr Sankoh's soldiers tended to lose all moral inhibitions. For sport, some would place bets as to the sex of an unborn baby, and then opened the mother to find out.

How did Mr Sankoh become such a monster? His early life offers few clues. He was born in 1937, attended primary school, and was said to be able to read, but not well. He served as a corporal in the Sierra Leonean army, and briefly as part of the failed United Nations peacekeeping operation in Congo in the early 1960s, an experience which taught him contempt for the UN.

The Sierra Leone Mr Sankoh grew up in was dominated by a tiny, corrupt urban elite, whom he clearly, and perhaps unsurprisingly, resented. In 1971, he was expelled from the army and jailed for seven years for his role in an attempted coup. When he was released, he found work as an itinerant portrait photographer. On his travels, he began to foment revolution among the rural poor. He went to Libya to train with other west African revolutionaries, and it was there that he met Charles Taylor, now president of Liberia, who was to become his chief ally.

Mr Taylor, who had a grudge against the Sierra Leonean government and an eye on the country's diamonds, helped Mr Sankoh set up the RUF. Initially, the rebels were quite popular. Schools, clinics and other public services had been withered by corruption, and Mr Sankoh's promises of free health care, free education and a fair distribution of diamond revenues sounded appealing. But Mr Sankoh was not sincere. Having captured the diamond fields, he used the profits to buy arms from Mr Taylor. He handed

out cash to buy support, but never paid his soldiers regularly. Instead, he expected them to subsist by looting—one campaign was actually called “Operation Pay Yourself”—or by eating the flesh and drinking the blood of freshly-slain victims.

The RUF was also notorious for amputating people's hands and feet. Victims were sometimes given a choice: they could have a hand cut off at the wrist, or at the elbow. The rebels who filled the most bags with severed extremities could win promotion. The purpose, Mr Sankoh's lieutenants explained, was to stop people from growing rice that might go to feed government troops. The same reasoning led them to cut off hands before elections, to stop people from voting.

A legacy of pain

By the end of the 1990s, Sierra Leone was a wreck: by the UN's reckoning, the poorest country on earth. America and other outsiders pushed the government and Mr Sankoh into signing a peace agreement in 1999, which gave the rebels several cabinet posts in return for a promise to disarm. But Mr Sankoh did not disarm, and the war resumed. UN peacekeepers intervened, but after his experiences in Congo, Mr Sankoh scorned them. At one point, his men took 500 of them hostage. The RUF was only defeated when Britain sent a small, well-equipped force with orders to shoot to kill. Sierra Leone became relatively calm once more, and reasonably fair elections were held last year.

Mr Sankoh was captured by a mob in 2000, after his bodyguards opened fire on a crowd, and was handed over to the British. He was indicted by an international court in Sierra Leone for crimes against humanity. In captivity, he appeared to lose his mind. He stopped washing, grew long dreadlocks, and ceased to talk coherently. In court, he was unable even to confirm his name. The court tried to have him flown abroad for a brain scan, but no country would accept him. He had a stroke last year, and then died of a pulmonary embolism on July 29th.

Why did people follow him? He was a charming speaker, when not in one of his frequent rages. He persuaded a lot of simple people that he was semi-divine, immune to bullets and able to vanish at will. But none of this really explains the horrors his followers committed.

Mr Sankoh took many secrets to his modest grave. The details of his dealings with Liberia may never be known, though the outline is clear enough for Sierra Leone's international court to have indicted Mr Taylor, who is currently besieged and likely to lose power soon.

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Overview

Aug 7th 2003
From The Economist print edition

America's GDP rose faster than expected in the second quarter, at an annual rate of 2.4%. However, employment continues to shrink: non-farm payrolls fell by 44,000 in July. The unemployment rate fell to 6.2% from 6.4% in June, as some of the jobless became discouraged and opted out of the labour force.

Industrial orders in **Germany** rose by 2.3% in June, after falling by 2.6% in May; export orders jumped by 5.7%. However, unemployment rose by a higher-than-expected 7,000 in July; the jobless rate held steady at 10.6% of the labour force. The **euro area's** unemployment rate was unchanged at 8.9% in June. Consumer-price inflation in the euro area fell to 1.9% in the year to July, just below the 2% ceiling of the European Central Bank's target.

Japanese wages rose by 2.7% in the year to June, their fastest increase for three years. After taking account of falling prices, this represented a real pay rise of 3.1%. In contrast, real wages rose by a more modest 1.0% in America in the year to July.

Britain's industrial production rose by 0.7% in June, much faster than expected. Manufacturing output rose by only 0.2%, but electricity production jumped by 8% as the heatwave forced Britons and other Europeans to turn up their air conditioners. Britain became a net exporter of electricity for the first time ever in June.

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Output, demand and jobs

Aug 7th 2003
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.9	Q1	+ 2.8	+ 2.8	+ 3.5	nil	Q1	+ 3.6	Q2	6.2	Jul	6.2
Austria	+ 1.0	Q1	+ 0.8	+ 0.5	+ 1.3	− 1.5	Dec	+ 7.4	Apr	4.4	Jul	4.3
Belgium	+ 1.4	Q1	+ 0.7	+ 0.7	+ 1.6	− 3.8	May	+ 1.7	May	13.0	Jul†	11.8
Britain	+ 1.8	Q2	+ 1.3	+ 1.8	+ 2.4	+ 2.2	Jun	+ 6.0	Jun	5.0	May††	5.2
Canada	+ 2.6	Q1	+ 2.4	+ 2.2	+ 2.9	− 0.5	May	+ 1.4	Apr	7.7	Jun	7.5
Denmark	+ 1.2	Q1	+ 1.4	+ 1.1	+ 2.1	− 0.8	May	− 1.2	Apr	6.2	Jun	5.0
France	+ 1.1	Q1	+ 1.1	+ 0.8	+ 1.9	− 1.5	May	− 2.0	May	9.5	Jun	9.0
Germany	+ 0.2	Q1	− 0.9	nil	+ 1.2	0.0	May	− 0.5	Jun	10.6	Jul§	9.8
Italy	+ 0.8	Q1	− 0.4	+ 0.5	+ 1.5	− 7.0	May	+ 1.2	May	8.7	Apr	9.0
Japan	+ 2.6	Q1	+ 0.6	+ 0.9	+ 0.9	+ 2.8	Jun	− 2.3	May	5.3	Jun	5.4
Netherlands	+ 0.2	Q1	− 0.3	− 0.2	+ 1.2	− 3.2	Jun	− 1.1	Apr	5.5	Jun**	4.0
Spain	+ 2.1	Q1	+ 2.0	+ 1.9	+ 2.6	+ 4.5	Jun	+ 4.5	May	11.4	Jun	11.3
Sweden	+ 2.2	Q1	+ 2.4	+ 1.4	+ 2.2	− 1.1	May	+ 7.0	Jun	4.8	Jun†	4.0
Switzerland	nil	Q1	− 1.0	− 0.1	+ 1.3	+ 0.9	Q1	+ 0.4	Apr	3.6	Jun†‡	na
United States	+ 2.3	Q2	+ 2.4	+ 2.3	+ 3.4	− 1.0	Jun	+ 5.2	Jun	6.2	Jul	5.8
Euro area	+ 0.9	Q1	+ 0.4	+ 0.6	+ 1.7	− 1.3	May	+ 0.4	May	8.9	Jun	8.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.2	Q1	− 4.9	na	na	− 3.8	Jun	+ 2.3	Apr	9.6	Jun†	9.0
Greece	+ 4.4	Q2	na	na	na	+ 4.1	May	na		na		na
Iceland	+ 3.3	Q1	na	na	na	− 0.3	2002	na		3.2	Jun†	2.3
Ireland	+ 0.5	Q1	na	na	na	+ 2.2	May	− 2.2	May	4.8	Jul	4.4
Luxembourg	+ 1.1	2002	na	na	na	+ 1.1	Apr	+ 3.8	Feb	3.5	Jun	2.6
New Zealand	+ 3.6	Q1	+ 3.3	na	na	+ 4.2	Q1	+ 6.4	Q1	5.0	Q1	5.3
Norway	+ 0.6	Q1	+ 1.3	na	na	− 5.7	May	+ 5.4	Jun	4.7	Q2	4.0
Portugal	− 1.2	Q1	+ 0.3	na	na	− 2.2	Jun	− 2.2	Jun	6.4	Q1†	4.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Mar-May; claimant count rate 3.1% in June. §EU harmonised rate 9.4% in July. **Apr-Jun.

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Prices and wages

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From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2003	2004	latest		year ago	latest		year ago
Australia	+ 2.7	Q2	+ 2.8	+ 2.7	+ 2.3	+ 0.2	Q2	– 1.1	+ 4.3	Q1	+ 4.1
Austria	+ 1.1	Jun	+ 1.7	+ 1.2	+ 1.1	+ 1.2	Jul	– 1.0	+ 2.1	Jun	+ 2.4
Belgium	+ 1.5	Jul	+ 1.3	+ 1.3	+ 1.1	– 0.9	Jun	+ 0.4	+ 1.7	Q2	+ 2.6
Britain	+ 2.9	Jun	+ 1.0	+ 2.7	+ 2.4	+ 1.1	Jun	– 0.1	+ 3.4	May	+ 3.8
Canada	+ 2.6	Jun	+ 1.3	+ 2.8	+ 1.9	– 2.7	Jun	– 1.1	+ 3.5	May	+ 2.8
Denmark	+ 2.2	Jun	+ 2.2	+ 2.2	+ 1.8	– 0.2	Jun	– 1.2	+ 3.9	Q1	+ 4.0
France	+ 2.0	Jun	+ 1.4	+ 1.8	+ 1.3	+ 0.9	Jun	– 1.4	+ 2.9	Q1	+ 4.0
Germany	+ 0.9	Jul	+ 1.2	+ 0.9	+ 0.5	+ 0.5	Jun	– 1.5	+ 1.2	May	+ 3.0
Italy	+ 2.6	Jul	+ 2.2	+ 2.4	+ 1.9	+ 1.5	Jun	– 0.5	+ 1.7	Jun*	+ 2.3
Japan	– 0.4	Jun	– 0.7	– 0.4	– 0.4	– 1.0	Jun	– 2.1	+ 2.7	Jun	– 1.8
Netherlands	+ 2.2	Jun	+ 3.4	+ 2.3	+ 1.7	+ 2.5	Jun	– 2.2	+ 2.8	Jun	+ 3.4
Spain	+ 2.7	Jun	+ 3.4	+ 3.0	+ 2.5	+ 0.9	Jun	+ 0.2	+ 4.9	Q1	+ 4.0
Sweden	+ 1.8	Jun	+ 2.0	+ 2.2	+ 1.6	– 1.6	Jun	– 0.6	+ 2.1	May	+ 4.5
Switzerland	+ 0.3	Jul	nil	+ 0.7	+ 0.6	– 0.7	Jun	– 1.7	+ 1.8	2002	+ 2.5
United States	+ 2.1	Jun	+ 1.1	+ 2.1	+ 1.3	+ 2.9	Jun	– 2.3	+ 3.1	Jul	+ 2.9
Euro area	+ 1.9	Jul	+ 2.0	+ 1.8	+ 1.3	+ 1.4	Jun	– 0.9	+ 3.0	Q1	+ 3.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.8	Jun	+ 1.1	na	na	– 1.0	Jun	– 2.3	+ 4.1	Q1	+ 3.2
Greece	+ 3.8	Jun	+ 3.3	na	na	+ 2.4	May	+ 1.3	na		na
Iceland	+ 1.6	Jul	+ 4.1	na	na	+ 3.3	Aug	+ 6.2	+ 5.6	Jun	+ 6.9
Ireland	+ 3.5	Jun	+ 4.4	na	na	–10.6	Jun	– 1.9	+ 7.1	Q1	+ 6.9
Luxembourg	+ 1.6	Jul	+ 2.0	na	na	+ 2.4	May	– 2.1	– 2.8	May	+ 0.8
New Zealand	+ 1.5	Q2	+ 2.8	na	na	– 1.3	Q1	+ 2.8	+ 2.3	Q2	+ 2.1
Norway	+ 1.7	Jun	+ 0.4	na	na	+ 2.8	Jun	–15.8	+ 5.3	Q1	+ 4.6
Portugal	+ 3.3	Jun	+ 3.4	na	na	+ 0.8	Jun	+ 0.5	nil	Jun	+ 0.5

*New series.

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Economic forecasts

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From The Economist print edition

The Economist poll of forecasters, August averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2003	2004	2003	2004	2003	2004	2003	2004
Australia	2.5/3.3	3.0/4.4	2.8	3.5	2.7 (2.9)	2.3 (2.5)	–5.1	–4.6 (–4.3)
Austria	nil/0.7	0.8/1.6	0.5	1.3	1.2 (1.4)	1.1	0.2 (0.1)	0.1 nil
Belgium	0.2/1.0	1.0/2.1	0.7 (0.8)	1.6	1.3	1.1	4.6 (4.7)	4.6 (4.7)
Britain	1.4/2.2	1.7/3.2	1.8	2.4 (2.5)	2.7 (2.8)	2.4	–1.1(–1.4)	–1.3 (–1.4)
Canada	1.8/2.8	2.4/3.7	2.2 (2.3)	2.9 (3.0)	2.8 (2.9)	1.9 (2.0)	1.8	1.6 (1.5)
Denmark	0.7/1.8	1.6/2.6	1.1 (1.0)	2.1 (2.0)	2.2 (2.3)	1.8	2.6	2.5 (2.3)
France	0.4/1.2	1.2/3.1	0.8	1.9	1.8	1.3	1.4 (1.7)	1.3 (1.6)
Germany	–0.3/0.3	0.5/2.1	nil	1.2	0.9 (0.8)	0.5	2.1	1.9
Italy	0.3/1.0	0.8/2.5	0.5 (0.6)	1.5 (1.6)	2.4 (2.5)	1.9 (1.8)	–0.5	–0.4 (–0.5)
Japan	0.2/1.5	–0.3/2.1	0.9 (0.8)	0.9 (0.8)	–0.4	–0.4 (–0.5)	2.5 (2.2)	2.7 (2.4)
Netherlands	–0.8/0.3	0.5/2.4	–0.2	1.2 (1.3)	2.3 (2.4)	1.7 (1.8)	2.2 (2.5)	2.4 (2.7)
Spain	1.6/2.1	2.1/3.5	1.9	2.6	3.0	2.5	–2.4(–2.3)	–2.3
Sweden	0.9/2.0	1.6/2.9	1.4	2.2 (2.1)	2.2 (2.1)	1.6 (1.7)	3.5	3.4 (3.3)
Switzerland	–0.5/0.9	0.5/2.2	–0.1 (0.1)	1.3 (1.4)	0.7	0.6 (0.7)	10.8(11.6)	10.6 (11.3)
United States	1.9/2.4	2.2/4.2	2.3	3.4	2.1 (2.2)	1.3 (1.5)	–5.3	–5.4 (–5.5)
Euro area	0.3/0.8	1.1/2.6	0.6	1.7	1.8	1.3	0.6 (0.7)	0.5 (0.6)

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, Merrill Lynch, J.P. Morgan Chase, Morgan Stanley, Nordea, Decision Economics, BNP Paribas, Royal Bank of Canada, Citigroup, Scotiabank, UBS

Every month *The Economist* calculates the average of a group of forecasters' predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest projections for growth. The previous month's figures, where different, are shown in brackets. Our panel has left its growth forecasts for next year unchanged in America (3.4%) and the euro area (1.7%). It is cheerier about Japan, where it now expects GDP to grow by 0.9% this year and next. That still leaves Japan with the slowest growth next year. Australia's economy is expected to grow fastest in 2004, with GDP tipped to expand by 3.5%. Growth forecasts for next year have been shaved to 2.4% in Britain and to 1.3% in Switzerland. The panel now reckons that inflation in the United States could fall to 1.3% in 2004.

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Money and interest rates

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	Money supply* % change on year ago			Interest rates % p.a. (Aug 6th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 8.7	+13.0	Jun	4.80	4.87	4.78	5.50	5.71	6.23
Britain	+ 6.7	+ 8.0	Jun	3.44	3.88	3.96	4.46	4.63	5.74
Canada	+ 8.0	+ 7.4	Jun	2.87	2.78	3.00	4.96	5.16	6.48
Denmark	+10.5	+10.1	Jun	2.30	3.60	2.91	4.28	4.74	5.53
Japan	+ 4.7	+ 1.8	Jun	0.01	0.02	0.07	0.91	1.28	1.01
Sweden	+ 3.3	+ 5.0	Jun	2.68	4.19	3.20	4.58	4.96	3.81
Switzerland	+24.5	+10.3	Jun	0.28	0.79	0.29	2.55	2.88	3.12
United States	+ 7.0	+ 7.1	Jun	1.04	1.68	1.76	4.28	4.29	6.23
Euro area†	+11.5	+ 8.3	Jun	2.14	3.34	2.54	4.09	4.48	4.27

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.24%, Japan No.252 0.91%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 3.5%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

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From The Economist print edition

1995=100

	Jul 29th	Aug 5th*	% change on one month	% change on one year
Dollar index				
All items	76.9	77.6	+ 1.6	+ 7.7
Food	75.8	75.9	– 0.6	+ 0.5
Industrials				
All	78.3	79.9	+ 4.5	+18.7
Nfa†	79.9	81.4	+ 2.1	+15.4
Metals	77.1	78.6	+ 6.7	+21.8
Sterling index				
All items	74.6	76.1	+ 3.3	+ 3.1
Euro index				
All items	87.9	89.9	+ 1.1	– 8.5
Yen index				
All items	97.8	99.0	+ 3.0	+ 6.8
Gold				
$ per oz	362.20	349.50	+ 1.5	+14.3
West Texas Intermediate				
$ per barrel	30.20	32.24	+ 6.6	+18.7

* Provisional. † Non-food agriculturals.

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Stockmarkets

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From The Economist print edition

Market indices

	Aug 6th	2003 high	2003 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	3,118.6	3,126.0	2,673.3	+ 1.4	– 9.3	+ 4.8	+20.7
Austria (ATX)	1,314.8	1,350.3	1,120.2	– 1.1	–24.3	+14.3	+23.9
Belgium (Bel 20)	2,008.1	2,074.1	1,426.6	+ 0.4	–45.5	– 0.8	+ 7.5
Britain (FTSE 100)	4,070.4	4,207.0	3,287.0	– 1.7	–41.3	+ 3.3	+ 3.4
Canada (Toronto Composite)	7,139.1	7,284.5	6,228.6	– 0.9	–37.3	+ 7.9	+21.3
Denmark (KBX)	187.1	188.8	145.0	+ 1.0	–38.0	+12.5	+21.9
France (SBF 250)	2,125.2	2,171.8	1,630.1	– 1.1	–51.6	+ 3.5	+12.2
(CAC 40)	3,126.2	3,213.9	2,403.0	– 1.5	–54.8	+ 2.0	+10.6
Germany (DAX)	3,375.7	3,487.9	2,203.0	– 1.6	–58.1	+16.7	+26.5
Italy (BCI)	1,149.7	1,195.9	959.4	– 1.0	–47.3	+ 5.3	+14.1
Japan (Nikkei 225)	9,323.9	9,991.0	7,607.9	– 3.2	–76.0	+ 8.7	+ 7.3
(Topix)	922.6	979.4	770.6	– 2.3	–68.0	+ 9.4	+ 8.0
Netherlands (AEX)	308.5	337.3	218.4	– 1.0	–56.0	– 4.4	+ 3.6
Spain (Madrid SE)	729.8	742.6	576.8	– 0.8	–36.3	+15.1	+24.8
Sweden (Affarsvarlden Gen)	164.0	167.0	127.8	– 0.7	–59.0	+12.9	+21.6
Switzerland (Swiss Market)	4,997.8	5,079.1	3,675.4	– 0.9	–40.6	+ 7.9	+10.7
United States (DJIA)	9,061.7	9,323.0	7,524.1	– 1.5	–22.7	+ 8.6	+ 8.6
(S&P 500)	967.1	1,011.7	800.7	– 2.1	–36.7	+ 9.9	+ 9.9
(NASDAQ Comp)	1,652.7	1,754.8	1,271.5	– 4.0	–67.3	+23.7	+23.7
Europe (FTSE Eurotop 300)*	859.4	890.8	682.7	– 1.6	–49.6	+ 0.3	+ 8.7
Euro area (FTSE Ebloc 100)*	737.2	759.2	565.7	– 1.6	–52.5	+ 2.6	+11.2
World (MSCI)†	870.0	907.3	710.8	– 1.9	–40.0	na	+ 9.8
World bond market (Citigroup)‡	550.5	583.9	518.6	– 0.1	– 5.7	na	+ 4.8

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

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	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2003	2004	Exchange rate trade-weighted† 1990=100 Aug 6th	year ago	Currency units per $ Aug 6th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2003‡
Australia	− 10.8	Jun	− 20.8	Q1	− 5.1	− 4.6	82.0	71.2	1.54	1.87	2.49	1.75	1.28	0.2
Austria	+ 1.0	Apr	+ 2.1	May	+ 0.2	+ 0.1	103.0§	100.4	0.88	1.03	1.42	–	0.73	-1.3
Belgium	+ 17.8	May	+ 10.7	Mar	+ 4.6	+ 4.6	103.3§	99.4	0.88	1.03	1.42	–	0.73	nil
Britain	− 73.7	May	− 5.8	Q1	− 1.1	− 1.3	98.7	106.7	0.62	0.65	–	0.71	0.52	-1.9
Canada	+ 36.2	May	+ 13.9	Q1	+ 1.8	+ 1.6	83.4	74.6	1.41	1.58	2.27	1.60	1.17	1.1
Denmark	+ 9.3	May	+ 5.6	May	+ 2.6	+ 2.5	106.6	103.1	6.54	7.65	10.5	7.43	5.44	1.6
France	+ 6.8	May	+ 27.0	May	+ 1.4	+ 1.3	106.8§	102.1	0.88	1.03	1.42	–	0.73	-3.6
Germany	+127.3	May	+ 55.8	May	+ 2.1	+ 1.9	104.4§	98.9	0.88	1.03	1.42	–	0.73	-3.7
Italy	+ 3.6	May	− 13.5	May	− 0.5	− 0.4	76.1§	72.8	0.88	1.03	1.42	–	0.73	-2.4
Japan	+ 95.8	May	+114.9	May	+ 2.5	+ 2.7	127.0	135.0	120	120	194	137	–	-7.7
Netherlands	+ 29.6	May	+ 2.9	Q1	+ 2.2	+ 2.4	102.8§	98.4	0.88	1.03	1.42	–	0.73	-1.6
Spain	− 45.5	May	− 19.0	Apr	− 2.4	− 2.3	77.3§	74.5	0.88	1.03	1.42	–	0.73	-0.4
Sweden	+ 15.6	Jun	+ 11.5	Q1	+ 3.5	+ 3.4	80.3	75.5	8.09	9.60	13.0	9.21	6.73	0.7
Switzerland	+ 5.8	Jun	+ 32.8	Q1	+10.8	+10.6	112.9	114.6	1.35	1.50	2.17	1.53	1.12	na
United States	−525.4	May	−510.2	Q1	− 5.3	− 5.4	104.7	115.3	–	–	1.61	1.14	0.83	-4.6
Euro area	+ 84.4	May	+ 45.3	May	+ 0.6	+ 0.5	90.4	81.0	0.88	1.03	1.42	–	0.73	-2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.8	May	+ 10.0	May	na	na	82.2§	78.5	0.88	1.03	1.42	–	0.73	3.1
Greece	− 23.5	May	− 11.0	May	na	na	59.7§	57.7	0.88	1.03	1.42	–	0.73	-1.0
Iceland	nil	Jun	nil	Q1	na	na	97.2**	86.2	77.9	85.5	125	88.6	64.8	nil
Ireland	+ 36.5	May	− 2.1	Q1	na	na	95.5§	88.1	0.88	1.03	1.42	–	0.73	-0.8
Luxembourg	− 3.3	May	+ 1.8	Q1	na	na	103.3§	99.4	0.88	1.03	1.42	–	0.73	0.2
New Zealand	− 1.4	Jun	− 1.4	Q1	na	na	99.6	83.7	1.72	2.20	2.77	1.96	1.43	0.8
Norway	+ 27.5	Jun	+ 25.8	May	na	na	98.5	103.4	7.19	7.75	11.6	8.18	5.98	11.3
Portugal	− 12.6	May	− 8.5	May	na	na	92.7**	89.9	0.88	1.03	1.42	–	0.73	-3.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, May average. ‡OECD forecast. **IMF, March average.

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Exchange rates against the dollar

Aug 7th 2003
From The Economist print edition

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Overview

Aug 7th 2003
From The Economist print edition

Argentina's 12-month rate of consumer-price inflation fell to 7.3% in July. Over the same period inflation slowed to 31.9% in **Venezuela**, 3.1% in **Chile,** 27.4% in **Turkey** and 5.8% in **Indonesia**. Consumer prices fell by 1% in **Taiwan**.

In the year to July, **South Korea's** exports of mobile telephones and computers soared, widening its trade surplus to $9.1 billion. **The Philippines'** exports grew by 4.2% in the year to June, thanks largely to increased shipments of petroleum products and clothing. But electronics fell by 5.2%.

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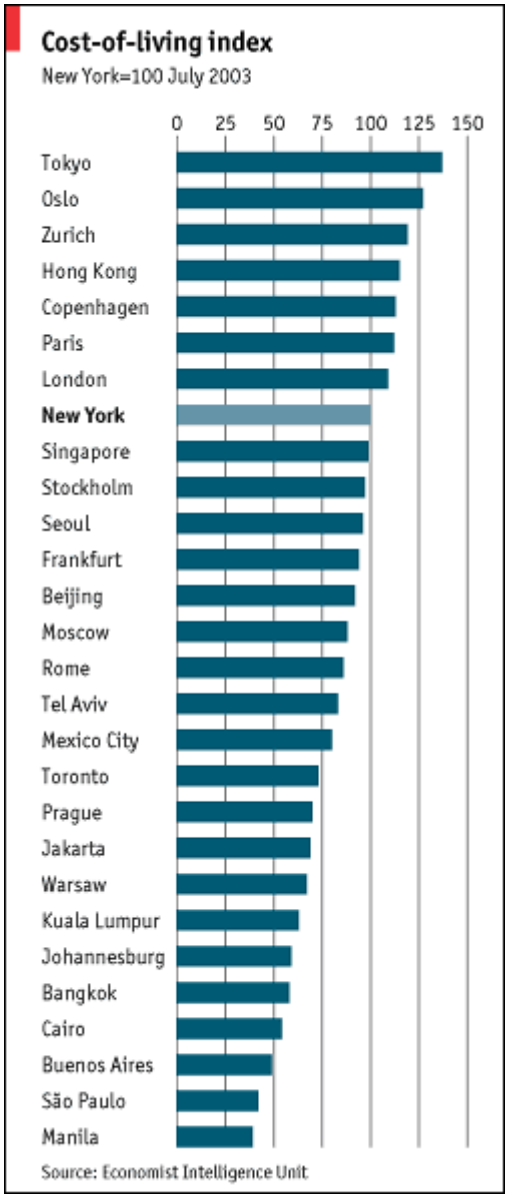
Cost-of-living index

Aug 7th 2003
From The Economist print edition

Tokyo is still the world's most expensive city, according to a survey of 134 cities by the Economist Intelligence Unit, a sister company of *The Economist*. The cost of living in Tokyo is 37% more than in New York. However, as a result of the stronger euro, Paris has now overtaken London, which itself is 9% costlier than New York. At the other extreme, one can live in Buenos Aires, São Paulo or Manila for less than half the cost of New York.



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Economy

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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 6.7	Q2	+16.9	Jun	+ 0.3	Jun	+21.5	Jun	+35.4	2002	331.1	Apr
Hong Kong	+ 4.5	Q1	– 8.8	Q1	– 3.1	Jun	– 7.1	Jun	+18.4	Q1	114.4	Jun
India	+ 4.9	Q1	+ 5.7	May	+ 4.4	Jun	–11.9	Jun	+ 4.7	Q1	81.2	Jul
Indonesia	+ 3.4	Q1	+18.4	Mar	+ 5.8	Jul	+25.5	Jun	+ 7.5	Q4	33.0	Jun
Malaysia	+ 4.0	Q1	+16.2	May	+ 0.8	Jun	+17.0	Jun	+ 8.5	Q1	36.0	Jun
Philippines	+ 4.5	Q1	+ 2.6	May	+ 3.3	Jul	– 0.8	May	+ 3.1	Apr	13.0	Jul
Singapore	– 4.3	Q2	– 7.3	Jun	– 0.3	Jun	+12.9	Jun	+21.3	Q1	86.6	Jun
South Korea	+ 3.7	Q1	+ 7.8	Jun	+ 3.2	Jul	+ 9.1	Jul	+ 3.7	Jun	131.6	Jun
Taiwan	+ 3.2	Q1	+ 2.1	Jun	– 1.0	Jul	+16.4	Jun	+25.9	Q1	182.2	Jul
Thailand	+ 6.7	Q1	+11.2	Jun	+ 1.8	Jul	+ 4.7	Jun	+ 8.7	Jun	38.3	Jun
Argentina	+ 5.1	Q1	+10.9	Jun	+ 7.3	Jul	+17.1	Jun	+10.1	Q1	12.2	Jun
Brazil	+ 2.0	Q1	– 0.3	May	+16.6	Jun	+21.8	Jul	+ 0.1	Jun	48.0	Jun
Chile	+ 3.5	Q1	+ 2.2	Jun	+ 3.1	Jul	+ 2.5	Jun	– 0.6	Q1	15.5	Jun
Colombia	+ 3.8	Q1	– 3.3	Apr	+ 7.0	Jul	– 0.4	Apr	– 2.1	Q1	10.4	Jun
Mexico	+ 2.3	Q1	– 2.3	May	+ 4.3	Jun	– 6.5	Jun	–12.7	Q1	52.9	Jun
Peru	+ 1.8	May	– 0.4	May	+ 2.0	Jul	+ 0.5	May	– 1.1	Q1	9.4	Jun
Venezuela	–29.0	Q1	–14.6	Apr	+31.9	Jul	+15.0	Q1	+ 9.5	Q1	11.9	May
Egypt	+ 3.1	2002†	+ 4.2	2002†	+ 3.9	May	– 7.1	Mar	+ 1.0	Q1	13.4	Jun
Israel	+ 1.2	Q1	– 5.1	May	– 0.3	Jun	– 6.2	Jun	– 0.5	Q1	24.4	Jul
South Africa	+ 2.5	Q1	– 4.0	May	+ 6.7	Jun	+ 3.2	Jun	– 0.2	Q1	6.5	Jun
Turkey	+ 8.1	Q1	+ 4.8	May	+27.4	July	–14.0	May	– 3.5	May	28.6	Jun
Czech Republic	+ 2.2	Q1	+ 3.2	May	+ 0.3	Jun	– 2.4	Jun	– 4.4	Q1	25.6	Jun
Hungary	+ 2.7	Q1	+ 4.4	May	+ 4.3	Jun	– 3.1	May‡	– 3.7	May	12.4	Jun
Poland	+ 2.2	Q1	+ 7.8	Jun	+ 0.8	Jun	–10.1	Jun	– 5.2	Jun	30.9	Jun
Russia	+ 6.8	Q1	+ 7.0	Jun	+14.0	Jul	+52.6	May	+36.4	Q2	60.7	Jun
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.6	2002†	+15.8	Nov	+ 1.9	Jun	– 1.1	Jun	+ 2.6	2002†	9.8	May
Saudi Arabia	+ 0.7	2002§	na		– 1.0	May	+38.6	2002§	+11.7	2002	22.8	May

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series. §Economist Intelligence Unit estimate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Aug 7th 2003
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Aug 6th		Dec 31st 2002	
	Aug 6th	year ago	Aug 6th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	13.3	na	1,556.4	+0.5	+ 9.7	+ 9.7
Hong Kong	7.80	7.80	12.6	1.17	9,987.5	−1.3	+ 7.1	+ 7.1
India	46.0	48.7	74.2	4.74	3,741.7	−1.0	+ 10.8	+ 15.4
Indonesia	8,597	9,060	13,858	9.49	494.4	−2.7	+ 16.4	+ 21.1
Malaysia	3.80	3.80	6.12	3.10	718.9	−0.2	+ 11.2	+ 11.3
Philippines	54.7	51.7	88.2	8.00	1,204.3	−1.9	+ 18.3	+ 15.4
Singapore	1.76	1.77	2.84	0.81	1,510.2	−4.3	+ 12.6	+ 10.8
South Korea	1,186	1,205	1,911	3.93	707.9	−0.9	+ 12.8	+ 12.9
Taiwan	34.4	33.7	55.4	0.90	5,225.8	−1.5	+ 17.4	+ 18.7
Thailand	42.0	42.4	67.8	1.26	489.8	+3.1	+ 37.4	+ 40.9
Argentina	2.93	3.62	4.72	9.13	737.7	−3.4	+ 40.5	+ 61.4
Brazil	3.04	3.06	4.89	24.33	12,887.7	−4.4	+ 14.4	+ 33.4
Chile	711	697	1,146	2.76	6,364.1	+1.7	+ 26.8	+ 28.4
Colombia	2,893	2,673	4,664	7.83	2,125.1	−0.3	+ 32.1	+ 30.9
Mexico	10.71	9.73	17.3	4.31	7,230.1	−0.4	+ 18.0	+ 15.3
Peru	3.48	3.55	5.61	3.41	1,872.6	+1.3	+ 34.5	+ 35.8
Venezuela	1,598	1,348	2,576	16.64	13,973.9	+0.1	+ 74.3	+ 51.3
Egypt	6.12	4.65	9.86	10.14	8,165.3	+0.7	+ 52.0	+ 15.1
Israel	4.43	4.71	7.14	4.47	414.2	−3.7	+ 24.6	+ 33.6
South Africa	7.4	10.5	11.9	10.85	8,809.1	+0.5	− 5.0	+ 10.3
Turkey	1,408,000	1,628,500	2,269,696	31.00	11,311.1	+8.3	+ 9.1	+ 28.6
Czech Republic	28.2	31.6	45.5	2.06	565.7	+0.6	+ 22.8	+ 30.8
Hungary	230	253	371	9.62	8,220.8	−0.3	+ 5.4	+ 3.1
Poland	3.84	4.19	6.20	5.23	17,877.7	−0.1	+ 24.4	+ 24.2
Russia	30.3	31.6	48.8	16.00	464.8‡	+2.7	+ 22.8	+ 29.5
EMF (MSCI)*	1.00	1.00	1.61	na	347.1	−1.2	na	+ 18.8
EMBI+†	1.00	1.00	1.61	na	259.0	−2.6	na	+ 13.2

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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